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PART 2 HISTORICAL PATTERN OF STATE EXPEND IN MONTANA AND U.S. SINCE 1947

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MONTANA TAX STUDY

PART TWO

HISTORICAL PATTERN OF STATE EXPENDITURES IN MONTANA AND THE UNITED STATES SINCE 1947

by

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A staff paper submitted through the Tax Study Task Force to the Montana Legislative Council Subcommittee on Taxation

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Part 2a

SECTION A--TRENDS AND COMPARISONS IN MONTANA GOVERNMENT EXPENDITURES

by John H. Wicks

The study of state expenditures is useful for the reason that actual expenditures presumably reflect the demand for various governmental services. The dollars budgeted and spent represent a specific, if approximate, judgment regarding the importance of various services as expressed through governmental processes. Trends in the amount of expenditures suggest what probable future demands may be. The amounts spent for each type of service--such as schools, highways, welfare, etc.--indicate the relative importance and emphasis given to each function. Total expenditures are related to overall tax and revenue requirements, bearing in mind that not all state revenues are obtained through taxes since federal and local funds are often closely inter-related with state expenditures.

Current trends in expenditures can help forecast future service and revenue requirements. Even though it does not necessarily follow that today's needs will continue in the future, it is nevertheless useful to study recent expenditures to determine whether present trends are likely to continue, or how they may differ.

Expenditures of other states give comparative basis for evaluating whether Montana expenditures are realistic. Certain types of state expenditures represent similar needs, common to all states. Costs of supplies and materials, major equipment, and construction costs tend to be comparable among states. Competition for teachers and other governmental staff tend to keep salaries and related costs roughly comparable, particularly among neighboring states. On the other hand, circumstances may be quite different in regard to costs and the need for some services. Thus, direct comparisons among states have limited usefulness unless careful analysis is made of the reasons and conditions behind the figures. In this respect, comparing Montana expenditures with other Rocky Mountain states is somewhat more useful than comparing with other areas. Population densities, school needs, and costs of road construction in Montana would be more comparable with Wyoming, for example, than with Delaware or Louisiana.

State-to-state differences in the amount spent for certain governmental functions may result from different methods of financing such functions. The extent to which schools are financed through local or statewide taxes, for example. varies considerably. Also, the use of federal funds in the financing of certain state expenditures must be considered. What one state does in terms of taxation and expenditures may not be the best solution for another state. Preferences of the electorate may differ from state to state. Historical patterns, in themselves differing, may be important considerations in determining current policies and expenditures. With these qualifications, such comparisons are nevertheless a useful aid in evaluating the revenue and expenditure patterns that do exist.

Any analysis of state expenditures must consider the combined outlays of both state and local governments as well as those of state government alone, since expenditures for a given purpose may be a responsibility of either the state or local government, or both. For example, primary and secondary education are financed largely at the state level in Delaware. In Nebraska, the financing is largely local. Such differences distort state-to-state comparisons when local expenditures are excluded.

Kinds of Measures and Analyses

The total amount and trend of dollar expenditures present a useful record of expenditure patterns. However, year-to-year dollar expenditures reflect changes in prices of the things purchased as well as changes in the quantities and quality of things purchased. If we express such trends in terms of constant prices (adjusted for year-to-year price changes) we get a more accurate reflection of changes in the quantity of purchases (expenditures).

It may not be useful to compare the dollar expenditures of one state directly with another, such as Montana with California or New York. But if we relate expenditures for governmental services to the population which receives the benefit of them, this measures expenditures on a per person, or per capita, basis. Another useful measure is to show expenditures as a percentage of personal income. This shows the percentage of income of the people of a state that is represented by state expenditures. These two measures are useful in making comparisons between states even where the dollar totals and population vary greatly. Bear in mind that both of these measures measure the amount of expenditures rather than the amount of taxes collected, and that Federal funds sometimes provide a part of the expenditure total.

This analysis of state expenditures will consider all of these measures and will show trends in expenditures by type of service as well as comparisons with other states. Parts A and B of this chapter consist of two somewhat different approaches to the analysis of expenditures. Part C presents a useful historical summary of the important steps in the economic development of Montana as they relate to expenditures.

MONTANA STATE EXPENDITURES

Trends in Total Expenditures

Measured by all commonly used measurement techniques--dollars adjusted for purchasing power changes, outlays per capita, and expenditures as a percentage of personal income--expenditures for general governmental purposes by the state government of Montana have increased markedly since 1947.[1] Expenditures stated in terms of consumer purchasing power increased 232 percent between 1947 and 1964: that is, more than three times as many consumer goods could have been purchased with the money spent by the government of Montana in its fiscal year ending June 30, 1964, than with the money it spent in 1947.[2] Stated in terms of the purchasing power of state and local governments, for goods these governmental units normally purchase, the expenditures in 1964 increased 132 percent of 1947: that is the government purchased more than twice as many actual goods and services in 1964 as in 1947. This shows that the cost of things purchased by governments increased more repidly during the period than prices paid by consumers. Figure 1 shows the increase in Montana state government expenditures between 1947 and 1963 expressed in terms of 1957-59 consumer purchasing power dollars and in terms of 1954 state and local government purchasing power dollars.[3] The 1957-59 consumer price index will be used as the basis for stating expenditures from year-to-year in dollars of constant purchasing power.

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1. Expenditures for general governmental purposes, often known as general expenditures, include all outlays to provide public services, but exclude such governmentally operated business activities as inventory purchases by state liquor monopolies and state hail insurance for crops.

2. In this study, fiscal years will be referred to by the year in which they ended.

3. 1957-59 is the most commonly used base period--that is, the period to which other years are compared--for the consumer price index, and 1954 is the generally used base year for the index of the cost of government purchases.

Per capita expenditures in terms of 1957-59 dollars have risen from $90.80 in 1947 to $288.20 in 1964, as shown by Figure 2. Figure 3 depicts expenditures as a percentage of personal income over the period. They have risen from 4.6 percent in 1947 to 11.2 percent in 1964. The reader may note that the trend in expenditures per capita is similar to their trend as a percentage of personal income. This is because both are derived from the same expenditure figures. The reason for presenting both types of graphs is to show the magnitude of outlays as well as trends in expenditures.

Expenditures for Specific Functions

It is useful to analyze the levels and trends of particular types of expenditures as well as total outlays. One reason for this is that there have been wide differences in the rate of increase of expenditures for particular functions by the state. For instance, Table 1 shows that 1964 education expenditures were 680 percent of 1947 outlays, while welfare expenditures rose by only 122 percent during the period. Figure 4 compares Montana state government expenditures for highways, education, and other areas in years since 1947 with their 1947 level. Outlays for education and highways have risen much more rapidly than total expenditures.

Table 1

The Rise in Montana State Government Expenditures Since 1947*

Function	Percent of 1947 Level
Education	680 percent
Highways	464
Natural Resources**	316
Insurance	282
Public Safety	278
General Control	274
Health and Hospitals	239
Welfare	122
Total	332

* Data in this table are based on expenditures expressed in terms of 1957-59 consumer dollars.

** Conservation, forestry, parks, etc.

Figure 5 shows the rise in expenditures for the four largest state functions between 1947 and 1964--education, highways, welfare, and insurance--plus on all other categories. The insurance expenditure includes state employee retirement, unemployment compensation, and workman's compensation. Figure 6 depicts expenditures for natural resources (which includes outlays for agricultural research and conservation, fish and game, and forestry and parks); health and hospitals; general control (which includes the legislature branch, the judiciary, and financial administration); and public safety (which includes expenditures for state police and correctional institutions). However, added together these last four items constituted less than a third as much as highway outlays alone.

Figures 7 and 8 show per capita expenditures for the major items in the state's budget, and Figures 9 and 10 show these expenditures as a percentage of personal income. A large portion of expenditures is devoted to highways and education.

Figure 1

Purchasing Power of Expenditures by Montana State Government, 1947-64.

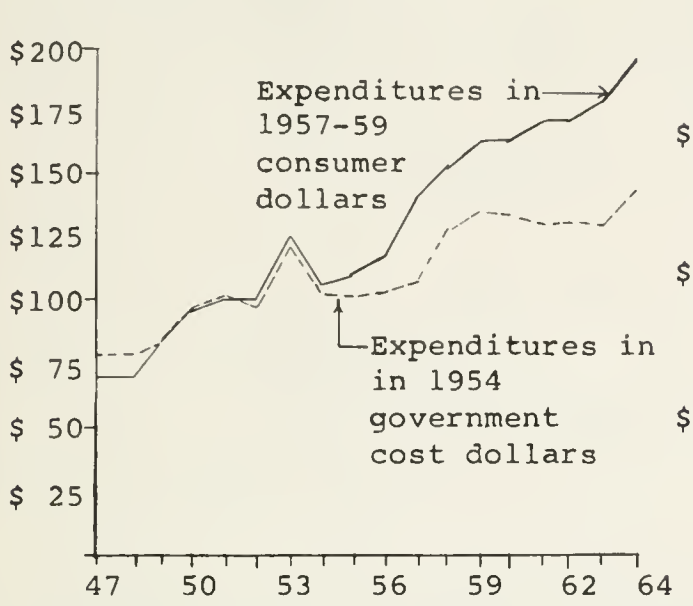


Figure 2

Per Capita Montana State Government Expenditures, 1947-1964.

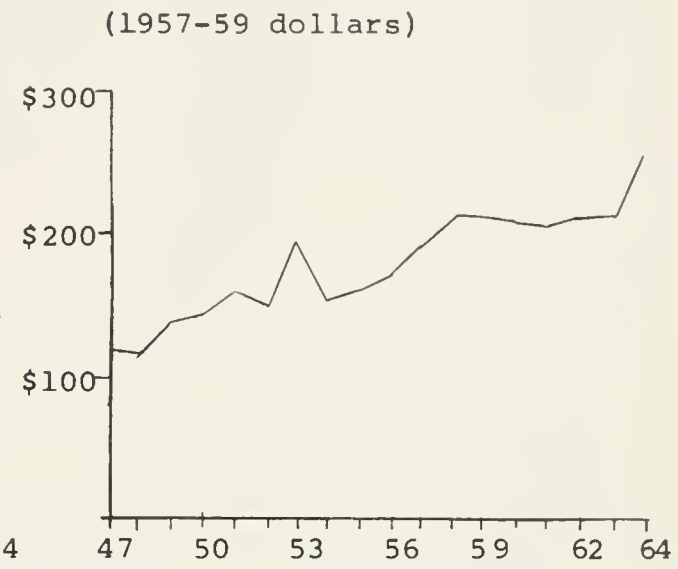


Figure 3

Montana State Government Expenditures As a Percentage of Personal Income, 1947-1964.

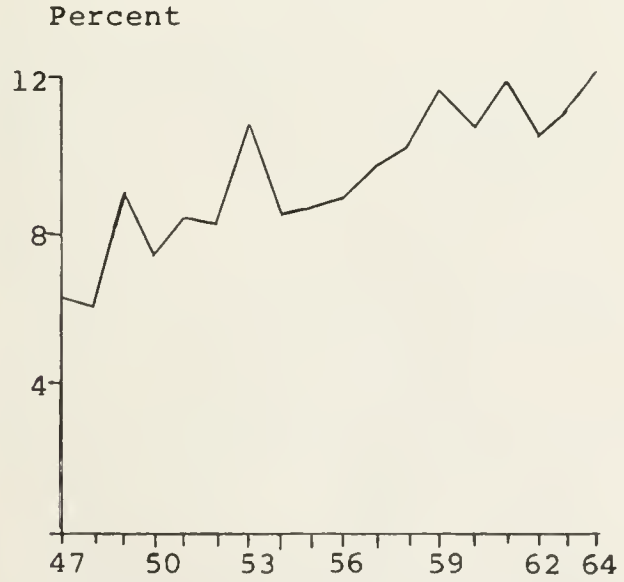
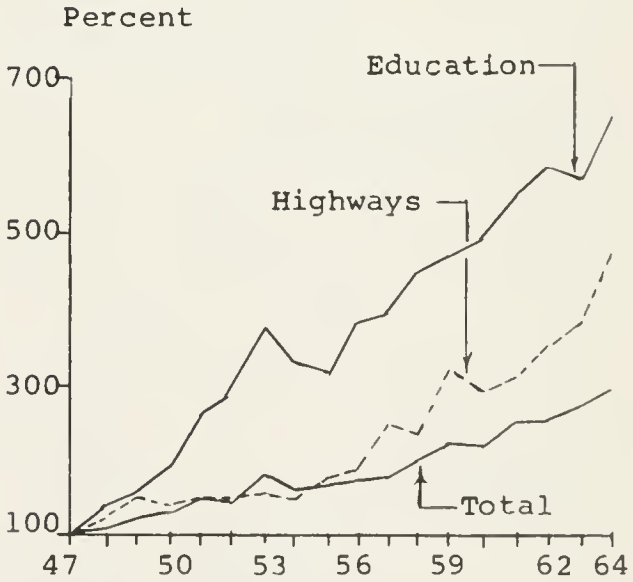


Figure 4

Selected Montana Expenditures As a Percentage of Their 1947 Levels*



*In terms of 1957-59 consumer purchasing power dollars.

Source: Computations made from United States Bureau of Census figures presented in its Compendium of State Government Finances (1947-1964) and Statistical Abstract of the United States (1947-1964).

Figure 5

Montana State Government Expenditures For Highways, Education, Welfare, and Insurance, 1947-1964.

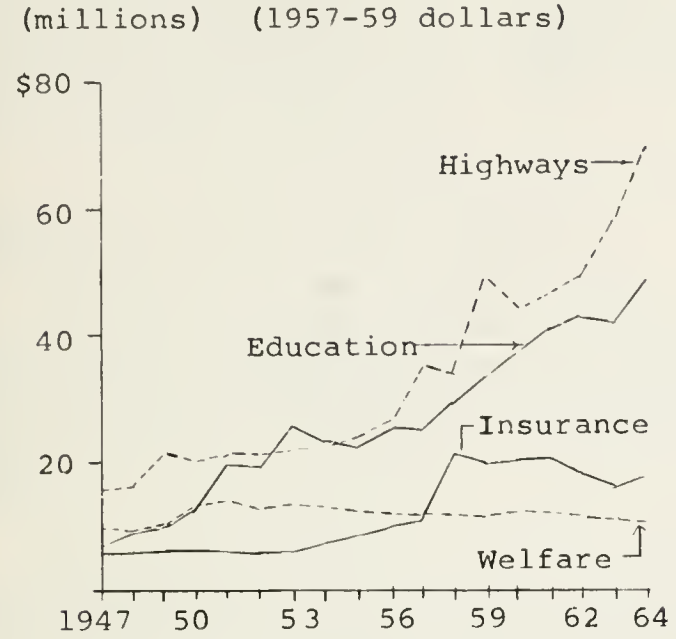


Figure 6

Montana State Government Expenditures for Natural Resources, Health and Hospitals, General Control, and Public Safety, 1947-1964.

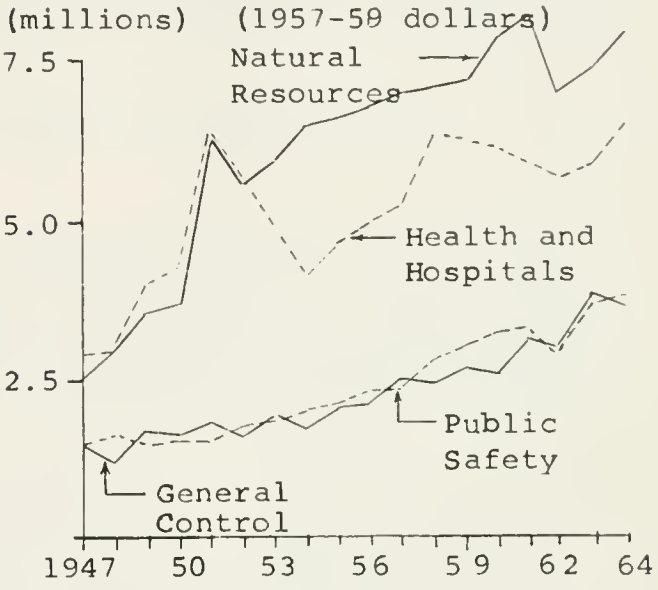


Figure 7

Per Capita Montana State Government Expenditures for Highways, Education, Welfare and Insurance 1947-1964.

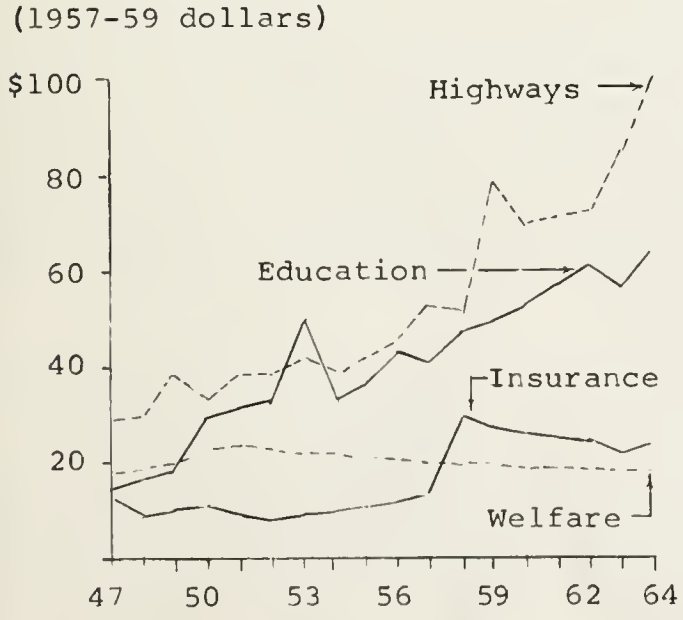
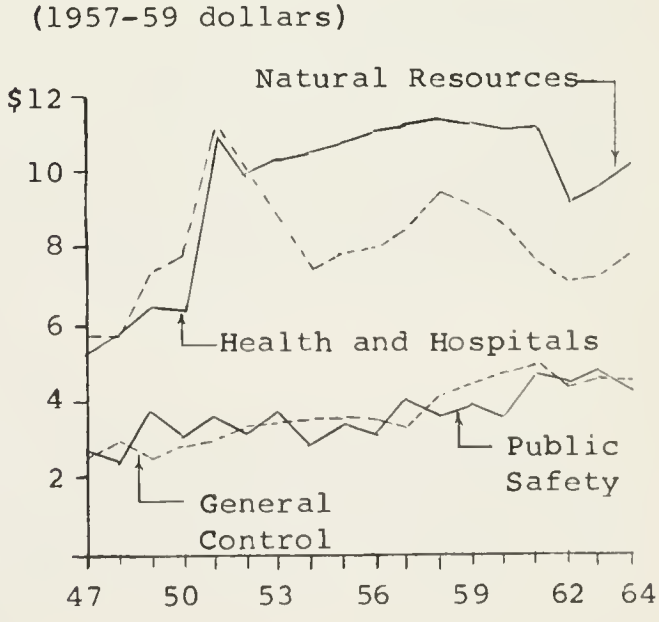


Figure 8

Per Capita Montana State Government Expenditures for Natural Resources, Health and Hospitals, General Control and Public Safety 1947-1964.



Source: Same as Figure 1.

Together they constituted almost 62 percent of aggregate state outlays in 1964. On a per capita basis they cost $98.31 and $68.14, which amounted to 4.7 and 3.3 percent of state personal income respectively that year. In both per capita terms and as a percentage of personal income, highways and education have increased much more rapidly than insurance and welfare expenditures, which are now the third and fourth largest outlays. In fact, welfare expenditure per capita and as a percentage of personal income was less in 1964 than in 1947. Expenditures for natural resources and health and hospitals have increased somewhat more rapidly than for general control and public safety; in 1964 these items ranked fifth through eighth respectively in order of expenditure magnitude.

1964 STATE GOVERNMENT EXPENDITURES COMPARED WITH OTHER STATES

Comparison of Current Total Expenditures

Total Montana state government general expenditures, measured in per capita terms and as a percentage of personal income, are above the national average--Montana ranks 15th in both measures among the 50 states. (See Figure 11.) However, among the ten western states (Montana plus North Dakota, South Dakota, Wyoming, Colorado, New Mexico, Utah, Arizona, Idaho, and Nevada) Montana ranks just below the median. Among these states, we rank sixth according to both measures of total expenditure level.

As previously mentioned, a simple comparison of expenditure levels is not especially meaningful. For instance, economic needs vary from state to state. Some states finance governmental activities largely at the state level; others leave large portions of the activities to be financed locally. In many states, a large portion of state government outlays are used to make grants to local governmental units and thereby to lower the amount of revenue to be raised by local taxes. For instance, aid to local governments accounts for 30 percent of state government expenditures in Wisconsin, but only about six percent in New Hampshire. Montana gives 11.9 percent of state outlays to local units. This percentage ranks 46th among all states and ninth among the ten western states, as shown by Figure 12. Thus, in Montana most state expenditures finance activities at the state level, and local governmental units must finance most of their own expenditures.

Federal grants pay for a much larger portion of state government expenditure in some states than others. The greater the amount of funds received from the federal government, the less the burden of a given level of state expenditures to the taxpayers of that particular state (although not of the nation as a whole). The amount of aid received as a percentage of state government expenditures varies widely from state to state. (See Figure 13.) It may be noted that we rank third nationally and second regionally according to portion of expenditures financed with Federal funds--over 40 percent. A large portion of this aid is earmarked for highway expenditures. Thus, we can afford a somewhat greater amount of expenditures, especially for highways, with a given level of taxes than can some other states.

Comparison of Expenditures for Various Functions

Montana's position among all of the states (and in the ten western states) according to state government expenditures for specific functions varies widely. (See Table 2.) Per capita state expenditures for highways in Montana are the fourth highest in the nation, while per capita expenditures for welfare and for health and hospitals are 40th and 42nd respectively. Montana's expenditures for highways, insurance, natural resources, and public safety rank above the median, or typical. level in both groups of states.[1] The level of Montana's expenditures for welfare and for

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1. The median level of expenditure is the middle number on a list of the level of the level of expenditure in each state ordered from highest to lowest.

Figure 9

ntana State Government Expenditures
r Highways, Education, Welfare, and
surance, as a Percentage of Personal
come, 1947-1964.

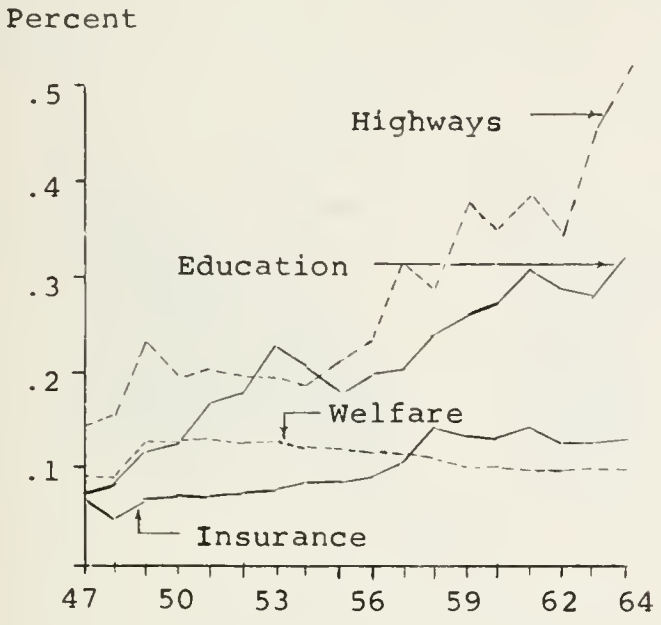


Figure 10

Montana State Government Expenditures for Natural Resources, Health and Hospitals, General Control, and Public Safety, as a Percentage of Personal Income, 1947-1964

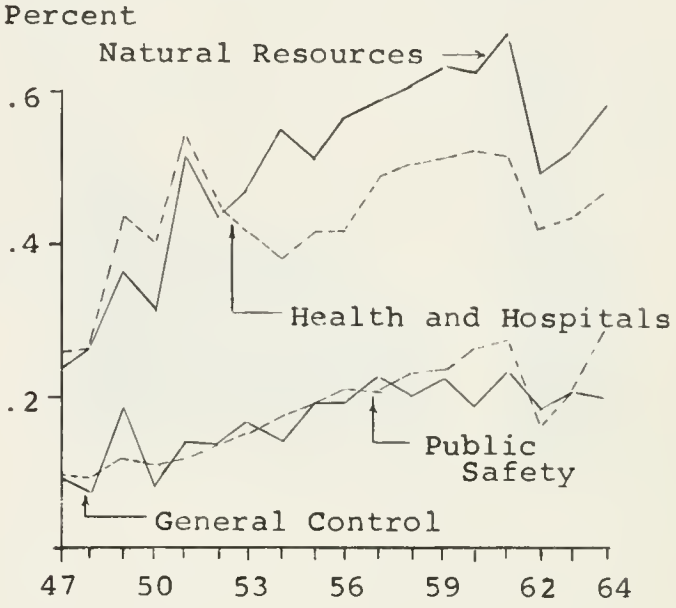
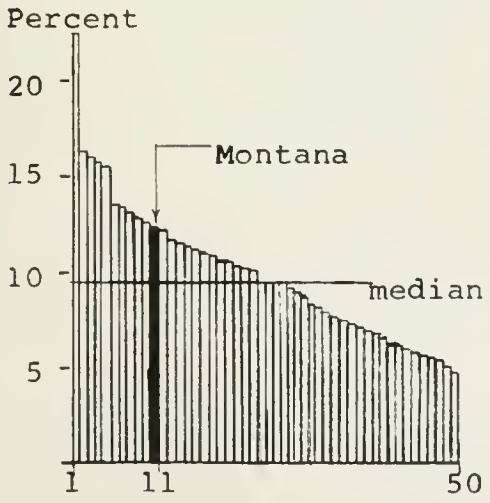


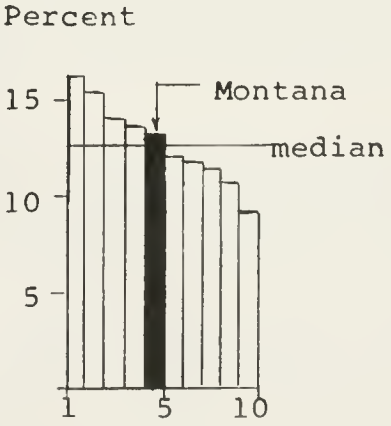
Figure 11

Montana's Ranking According to Total State Government Expenditures, as a Percentage of Personal Income, 1964.

Among All States



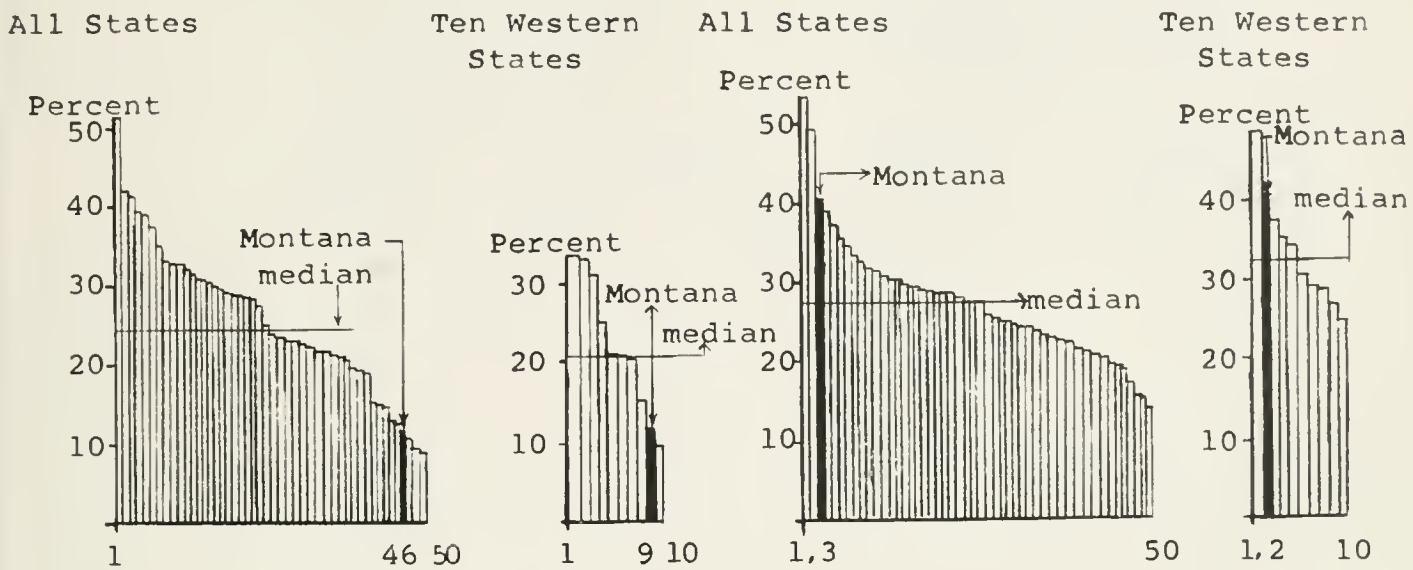
Among Ten Western States



urce: Same as Figure 1.

Figure 12
Montana's Rank According to the Percentage of State General Expenditures Devoted to Aid to Local Governments, 1964.

Figure 13
Montana's Rank According to Percentage of State Expenditures Financed by Federal Government Grants-in-Aid, 1964.



Source: Same as Figure 1.

health and hospitals is below the median for all states and for the ten western states. Per capita expenditures for education by Montana state government were slightly above the national median. However, as a percentage of personal income they were just about equal with the median, and among ten western states they were significantly below the median in per capita terms as well as in relationship to personal income. The state's outlays for general control were above the national median, but slightly below the median in the ten western states.

The level of our highway and natural resources expenditures, as previously mentioned, and to some extent our educational and general control outlays, can be explained by the wide disbursement of our population. Our low welfare and health and hospitals outlays can probably be attributed partly to an absence of the acute problems likely to be associated with highly urbanized areas. The level of Montana's insurance outlays is largely a matter of choice. In fact, legislative discretion is a determinant of all governmental expenditures.

It is important to remember, however, that, as in the case of highway expenditures, these separate outlays do not necessitate a corresponding amount of taxes by the state. For example, over 60 percent of the welfare programs are financed with Federal funds, and Federal tax money pays for ten percent of the outlays for education.

Since 1947, there has been considerable variation in Montana's position among other states according to levels of state government expenditures. The general trend of Montana's total state government expenditures per capita has been somewhat downward, but the trend of this item as a percentage of personal income has been upward. A ranking of Montana's per capita expenditures for welfare and for health and hospitals has dropped very sharply; for natural resources, per capita spending has dropped slightly in rank. There is no distinct trend in the state's ranking according to per capita outlays for other major expenditure items. Montana's rankings among all

Table 2

Ranking of Montana State Government Expenditures
for Various Functions, 1964

	Ranking Per Capita		Ranking as a Percentage of Personal Income	
	Among All States	Among Ten Western States	Among All States	Among Ten Western States
Highways	4	3	6	3
Education	20	8	24	7
Insurance	12	2	10	2
Welfare	40	8	39	8
Natural Resources	8	4	6	3
Health and Hospitals	42	6	39	6
Public Safety	16	5	14	5
General Control	19	6	16	7

Source: Same as Figure 1.

states by percentages of personal income spent for highways, education, insurance, and general control have risen somewhat. With respect to percentage of income devoted to welfare, its ranking has dropped considerably.

Montana's rank among these western states according to per capita outlays for welfare, public safety, and the total of all state governmental outlays has been generally downward. There has been no clear trend in the comparative position of its per capita expenditures for other major items. No marked patterns exist, but the comparative position of Montana's outlays for highways, education, insurance, natural resources, and general control has tended to be somewhat upward, and the trend of the ranking of its expenditures for welfare, public safety, and health and hospitals has been moderately downward.

Comparison of the Composition of Montana's Budget

An additional basis for comparing Montana's state expenditures with those of other states is by the portion of total expenditures devoted to particular functions. Figure 14 shows the portion of total expenditures devoted to highways, education, insurance, welfare, and other items in Montana, in all states taken together, and in the ten western states. Figure 14 demonstrates that Montana devoted a much larger portion of state expenditures to highways and smaller portions to education and welfare than does the average state.

TRENDS IN MONTANA STATE AND LOCAL GOVERNMENT EXPENDITURES SINCE 1957

The remaining figures in this chapter depict the level of combined state and local governmental expenditures in Montana, in total and for various functions; we

Figure 14

Comparison of the Portions of Montana State Government Expenditures Devoted to Highways, Education, Insurance and Welfare Compared to the National Average and the Average of Ten Western States, 1964

MONTANA

Highways 36%	Education 25%	Insurance 8%	Welfare 6%	Other 25%

UNITED STATES

Highways 22%	Education 31%	Insurance 10%	Welfare 12%	Other 25%

TEN WESTERN STATES

Highways 28%	Education 34%	Insurance 7%	Welfare 10%	Other 21%

Source: Same as Figure 1.

Figure 15

Portions of Montana State and Local Government Expenditures Devoted to Local Education, Higher Education, Highways, and Welfare Compared to the National Average and the Average of Ten Western States, 1964.

Montana

Local Education 29%	Higher Education 9%	Highways 30%	Welfare 5%	Other 27%

United States

Local Education 29%	Higher Education 8%	Highways 17%	Welfare 5%	Other 41%

Ten Western States

Local Education 31%	Higher Education 11%	Highways 21%	Welfare 7%	Other 30%

Source: United States Bureau of the Census, Government Finances in 1963-64.

then compare these levels nationally and regionally to those in other states. As mentioned earlier, certain governmental functions may be handled at either the state or local level, and various patterns of state versus local involvement are found from state to state. Therefore, examinations and comparisons of governmental expenditures within a state should be done on a state plus local basis as well as on a state basis only.

Figures 16 through 18 show total Montana state and local government outlays between 1957 and 1964 in terms of constant dollars, on a per capita basis, and as a percentage of personal income in Montana. (The Bureau of Census did not gather this data on a yearly basis prior to 1957.) The outlay amounts, it may be noted, are much higher than those of state government alone. For instance, they were almost 75 percent greater in 1964. All of the measures of expenditures have increased since 1957, but less rapidly than for state expenditures alone, since state governments have generally been increasing their outlays more rapidly than local governments. The percentage increase over the period of the purchasing power of expenditures in total, and for education and highways, is shown in Figure 19.

The patterns of Montana's state and local expenditures for various functions since 1957 are shown in terms of consumer purchasing power in Figures 20 and 21, in per capita terms in Figures 22 and 23, and as a percentage of personal income in Figures 24 and 25. While it can be seen that the purchasing power of all has increased over the period, in per capita terms and as a percentage of personal income, welfare outlays have declined, and as a percentage of personal income, expenditures for health and hospitals have remained about the same.

Our total expenditures per capita rank tenth in the nation and fourth in the region; as a percentage of personal income, they rank ninth and fourth respectively. Among all states, Montana ranks well among the median in total outlays and in expenditures for education and highways, especially highways. (See Table 3.) Education

Table 3

Ranking of Montana State and Local Government
Expenditures for Various Functions, 1964

	Ranking Per Capita		Ranking as a Percentage of Personal Income	
	Among All States	Among Ten Western States	Among All States	Among Ten Western States
Education in Local Schools	14	7	7	5
Higher Education	15	7	13	7
Highways	5	3	4	3
Welfare	36	7	32	7
Health and Hospitals	43	6	38	6
Police and Fire Protection	31	6	29	7
Other*	23	5	19	5

*Including sewerage, sanitation, parks, general control, interest.

Source: Same as Figure 15.

Figure 16
Purchasing Power of Expenditures by Montana State and Local Government (1957-64)

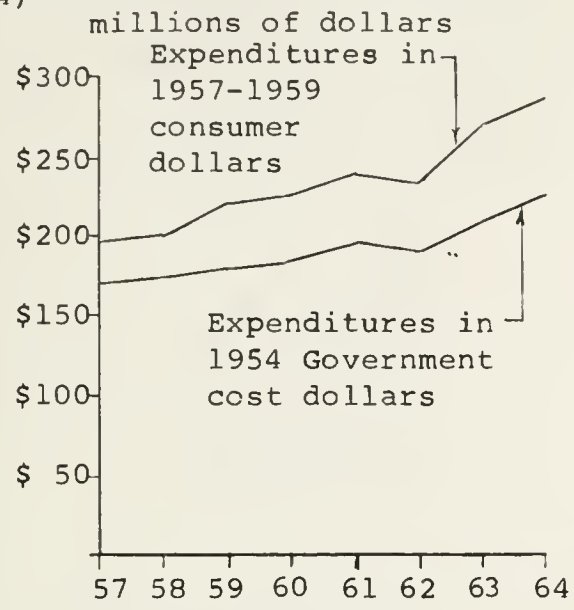


Figure 17
Per Capita Montana State and Local Government Expenditures. (1957-1964)

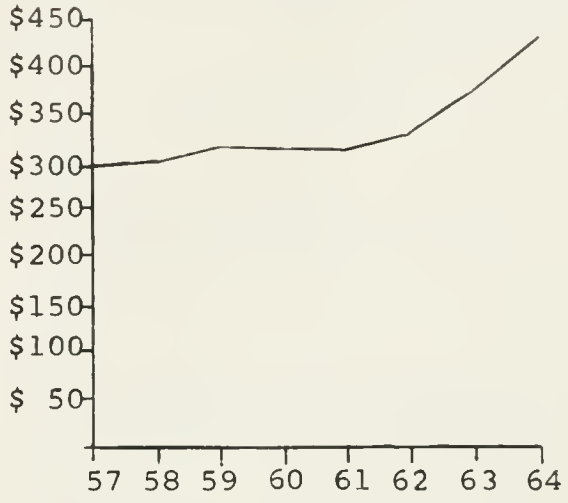
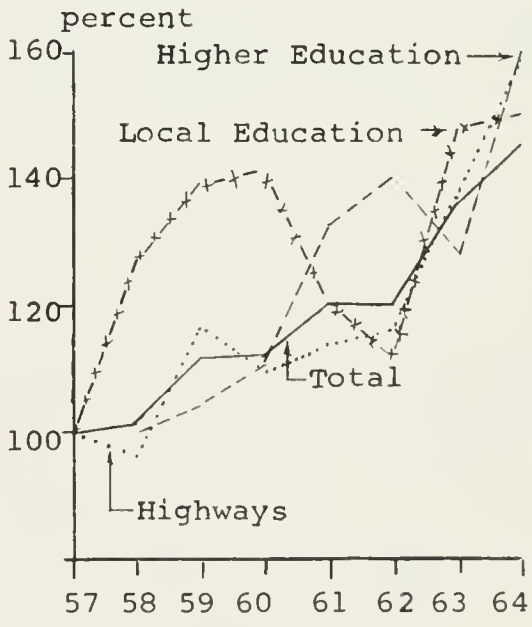


Figure 18
Montana State and Local Government Expenditures As A Percentage of Personal Income.

Figure 19
Selected Montana State and Local Expenditures As A Percentage of Their 1957 Levels.* **



*As a percentage of 1958 level for Higher Education.

**Expenditures for all years in 1957-59 consumer dollars.

Source: Same as Figure 15.

Figure 20

Montana State and Local Expenditures for Education in Lower Schools, Higher Education, and Highways, 1957-1964.

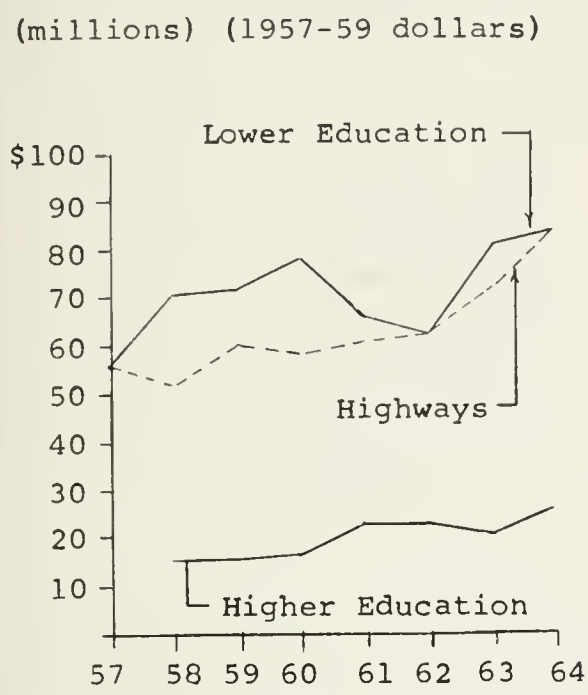


Figure 21

Montana State and Local Expenditures for Health and Hospitals, Police and Fire Protection, and Miscellaneous Items,* 1957-1964.

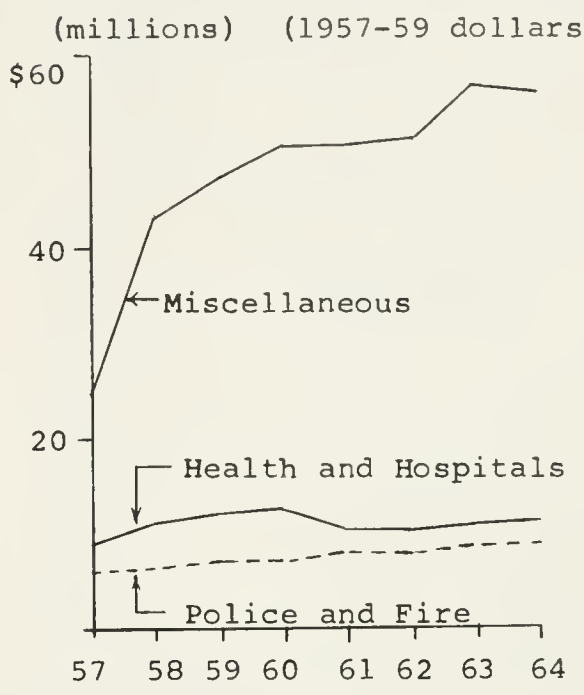


Figure 22

Per Capita Montana State and Local Expenditures for Higher Education, Education in Local Schools, Highways and Miscellaneous Items, 1957-1964.**

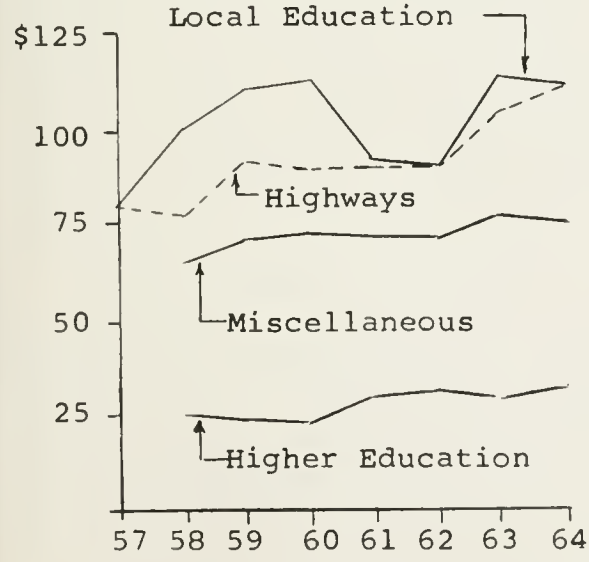
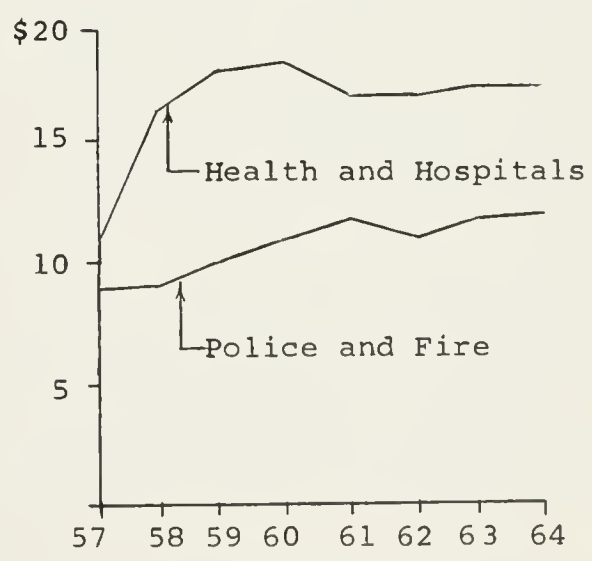


Figure 23

Per Capita Montana State and Local Expenditures for Health and Hospitals and Police and Fire 1957-1964.



*Including Sewerage, Sanitation, Parks, General Control, Interest.
**1958-64 for Higher Education and Miscellaneous Items.

Source: Same as Figure 15.

Figure 24

Montana State and Local Government Expenditures for Education in Local Schools, Higher Education, Highways, and Miscellaneous Items as a Percent of Personal Income, 1957-1964.*

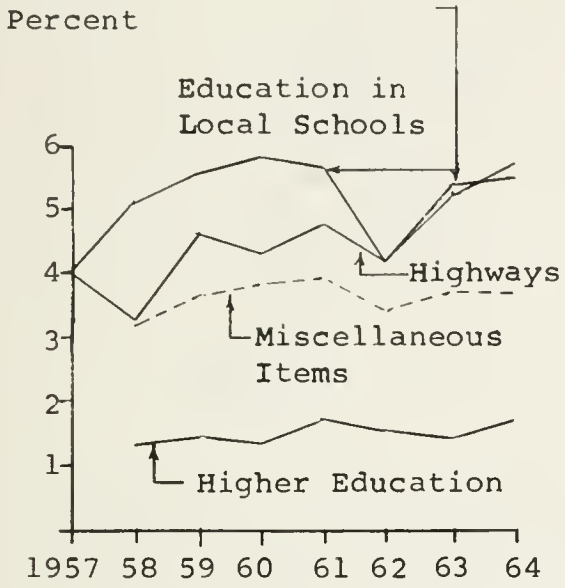
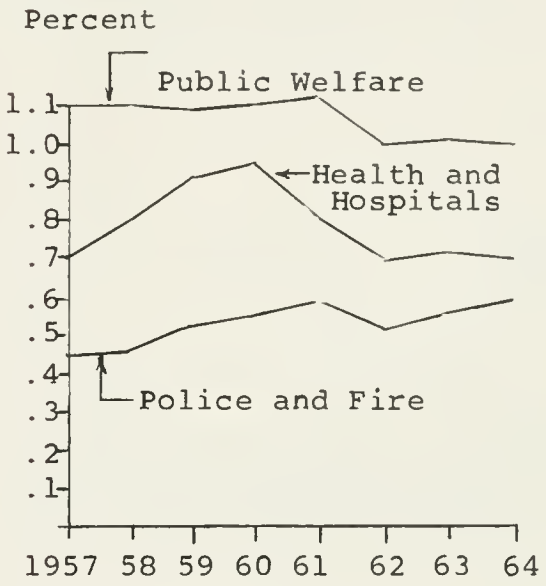


Figure 25

Montana State and Local Government Expenditures for Public Welfare, Health and Hospitals, and Police and Fire Protection as a Percentage of Personal Income, 1957-1964.



*1958-1964 for higher education and miscellaneous items

Source: Same as for Figure 15.

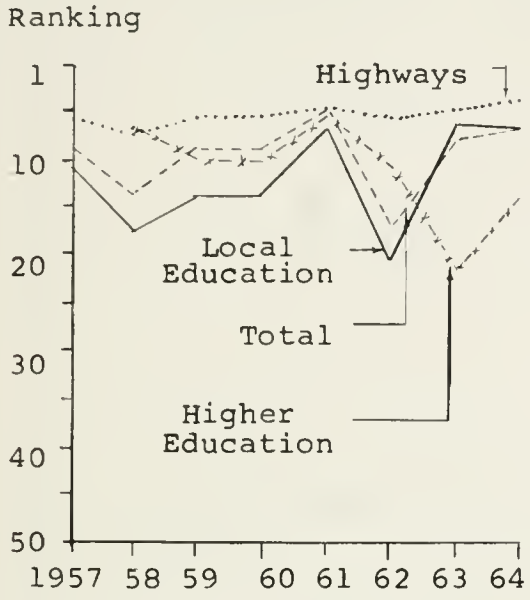
and highways are the two largest items of state and local government expenditure. Montana ranks slightly above the median according to expenditures for miscellaneous items, somewhat below the median according to expenditures for police and fire protection, and well below the median with respect to outlays for welfare and for health and hospitals. Among the ten western states, Montana ranks above the median in expenditures totally and for highways and miscellaneous items, as well as for expenditures in total. Its expenditures for local schools as a percentage of personal income is slightly above the regional median, but in per capita terms it is below the median. By both methods of measurement, we rank below the regional median with respect to expenditures for higher education, welfare, health and hospitals, and police and fire protection. As for state expenditures alone, geographic factors as well as legislative action offer explanations for Montana's rankings in these expenditures.

Figures 26 and 27 show the same comparisons for expenditures as a percentage of personal income. The reader may note that there has been a general upward trend in the ranking of Montana's total outlays--both per capita and as a percentage of personal income. The ranking of our expenditures for higher education and welfare has fallen. There has been no distinct upward or downward trend in the ranking of its expenditures for other items. Figures 28 through 31 show the state's rankings for these items among ten western states. Our outlays for welfare have declined noticeably as compared to other states in the region. There has been no marked trend in the ranking of our expenditures for other items.

Finally, Figure 15 (on page 11 to facilitate comparison with the state only budget) shows the portion of total state and local government expenditure devoted

Figure 26

ontana's Rank Among All States by
tate and Local Government
Expenditures Totally and for
igher Education, Local Education,
nd Highways as a Percentage of
ersonal Income, 1957-1964.*



1958-1964 for higher education

Figure 27

Montana's Rank Among All States by State and Local Government Expenditures for Public Welfare, Health and Hospitals, Police and Fire, and Miscellaneous Items. As a Percentage of Personal Income, 1957-1964.

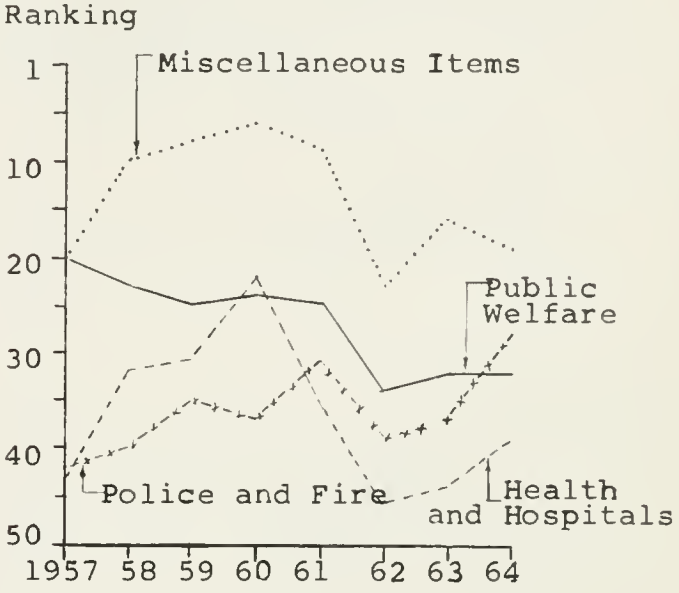
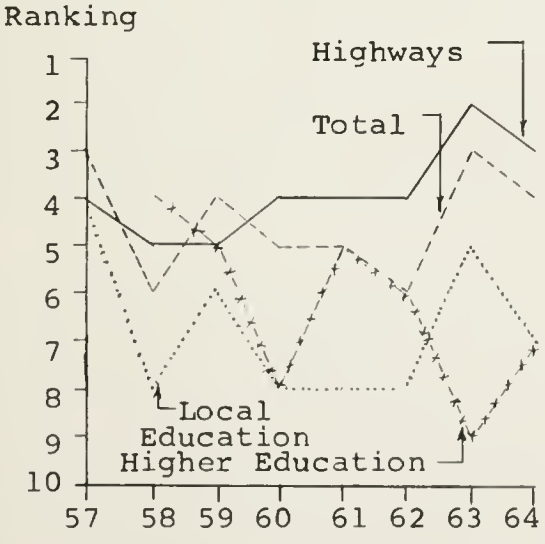


Figure 28

ontana's Ranking Among Ten Western
tates by Level of Per Capita State
nd Local Government Expenditures
otally and for Higher Education,
ocal Education, and Highways,
957-1964.



ource: Same as Figure 31.

Figure 29

Montana's Ranking Among Ten Western States by Level of Per Capita State and Local Government Expenditures for Welfare, Health and Hospitals, Police and Fire, and Miscellaneous Items, 1957-1964.

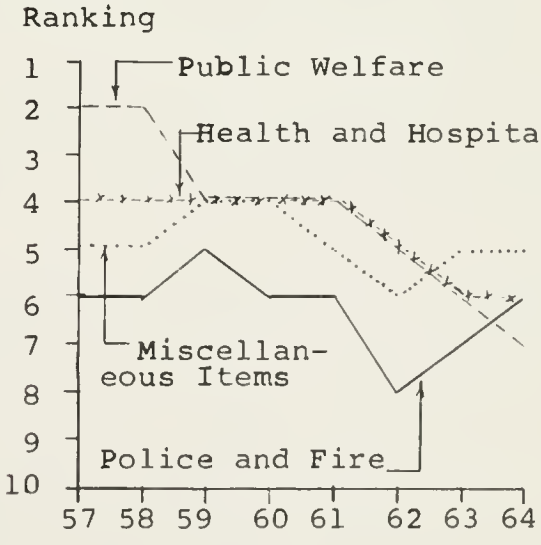
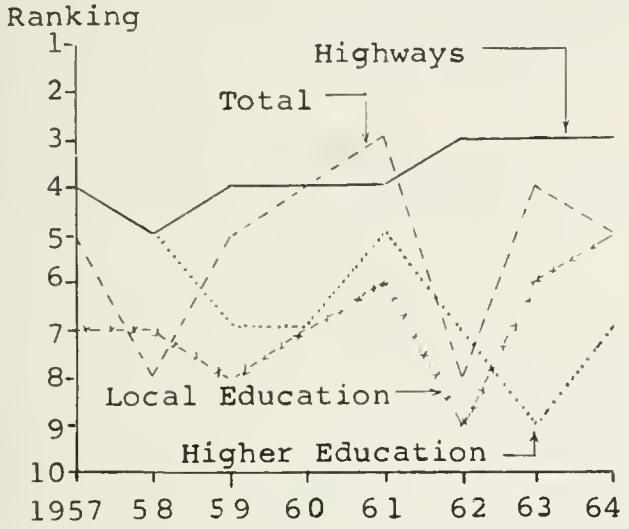


Figure 30

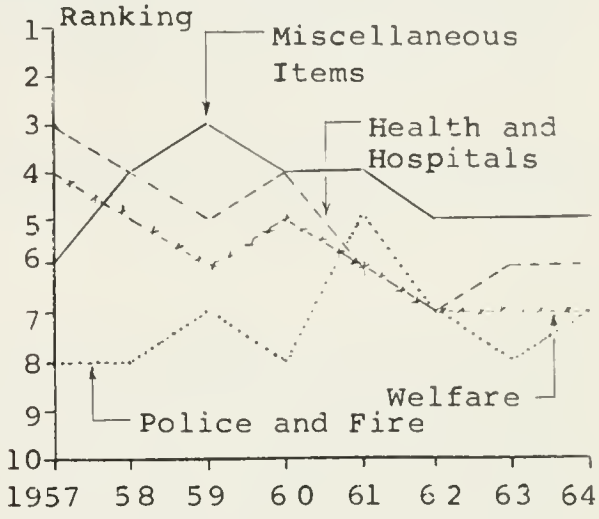
ontana's Rank Among Ten Western tates by Level of State and Local overnment Expenditures Totally and or Higher Education, Local Education, nd Highways as a Percentage of Per- onal Income, 1957-1964.*



*1958-1964 for higher education
Source: Same as Figure 15.

Figure 31

Montana's Rank Among Ten Western States by Level of State and Local Government Expenditures for Welfare, Health and Hospitals, Police and Fire Protection, and Miscellaneous Items as a Percentage of Personal Income, 1957-1964.



to various functions in 1964 in Montana, the United States, and the ten western states. This figure dramatically demonstrates that Montana governments devote a much greater portion of their budgets to highways than do governmental units in the typical state.

Concluding Remarks

The figures in these chapters present the pattern of state government expenditure in Montana since 1947, and the pattern of state plus local expenditures in the state since 1957. They compare the 1964 levels of these expenditures with comparable levels in other states. Expenditures for virtually all functions--in constant dollar terms, on a per capita basis, and as a percentage of personal income--have increased over the period. However, outlays have increased more rapidly for some functions than for others. Of the major functions, education and highways have been most prone to increase, while welfare expenditures have increased very little. Since 1957, expenditures at the state level have increased somewhat more rapidly than at the local level in the state.

Currently, on a per capita basis and as a percentage of personal income, total state and state and local expenditures are greater in Montana than in the typical state in the nation, but about the same as the average state in the region. Its expenditures for highways are significantly higher than in the median state. In fact, the level of Montana's total expenditures would be approximately comparable to that in the typical state were it not for the amount expended on highways, almost two-thirds of which is paid for with grants from the federal government. The relative levels of its expenditures for welfare and for health and hospitals are significantly less than in the average state, nationally or regionally. Its ranking in this respect has fallen markedly over the period analyzed. There has been no other large, consistent upward or downward trend in the relative level of state, or of state and local government expenditures, in Montana over the period.

Part 2b

SECTION B--TRENDS IN MONTANA PUBLIC EXPENDITURES, COMPARISONS WITH OTHER STATES

by Layton S. Thompson

In Section A of Part III, general revenue is defined as all those revenues available to governments excepting such items as gross sales revenue of state liquor stores, contributions to insurance trust systems, and revenues from publicly owned utilities. General revenue is made up of taxes, charges and other miscellaneous revenue. and inter-governmental revenue (chiefly grants-in-aid).

General expenditures has a parallel meaning. It includes all expenditures excepting such items as purchases of liquors by state stores, benefits and withdrawals from insurance trust funds, and expenditures involved in providing services by publicly-owned-and-operated utilities.

General Expenditures of Governments

If all the direct expenditures[1] of all levels of government in the U.S. are combined as in Table 2, national defense amounts to over one-third and national defense and education account for more than half, with highways ranking third. (Actually much of the interest on general debt and also veterans' services and space research should be counted as part of the national defense category.) The $57 billion item for national defense and international relations amounts to 59.2 percent of the total federal direct expenditure in 1963-64. If the $4.1 billion item for space research and technology, the $4.2 billion veterans' services item, and (say) half of the $8.3 billion interest on the general debt were added to the above as "defense-related" expenditures, these combined expenditures amounted to 72 percent of the federal expenditures in 1963-64.

When only state and local expenditures are considered, the major expenditures are for education, highways, and health and welfare. (Tables 2, 3. and 4.) The predominant expenditure at the local level is education, whereas the largest state expenditure is for highways. The reader is reminded, however, that large amounts of state general funds for highways are transferred from the federal government (as are large amounts of welfare funds and some educational funds) and that large amounts of local (school district) funds expended for educational purposes are transferred from the state.

When Montana's general expenditures are compared with expenditures of all 50 states, some interesting differences can be seen. Total state and local general expenditures for education in Montana amounted to about the same proportion of general expenditures as did educational expenditures for all 50 states, (38.8 percent and 38.3 percent respectively, Tables 2, 3, and 4 and Figure 1). However, a considerably larger part of Montana local expenditures went for public schools than was spent by local units in all 50 states, (57.4 percent and 46.2 percent respectively) and slightly more than was spent in 10 western states (Figure 1). Since local expenditure for schools includes state monies made available to local units through

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1. "Direct expenditures" excludes duplications where intergovernmental revenue is concerned. For example, federal grants-in-aid to states for welfare purposes would not be counted as both a federal expenditure and as a state expenditure.

TABLE 1

DIRECT GENERAL EXPENDITURE OF ALL GOVERNMENTS IN THE U. S. BY FUNCTIONS, 1963-64.*

Function	Amount (Millions of Dollars)	Percent
National defense and international relations	57,326	34.5
Education	27,589	16.6
Highways	11,828	7.1
Interest on general debt	10,649	6.4
Natural resources (includes agr. program)	10,042	6.0
Helath and hospitals	7,079	4.3
Public welfare	5,880	3.5
Postal service	4,775	2.9
Veterans' services not elsewhere classified	4,189	2.5
Space research and technology	4,140	2.5
Police protection	2,586	1.6
Sanitation	2,267	1.4
Local fire protection	1,222	0.7
Other functions	16,516	10.0
Total	166,088	100.0

*Source. Government Finances in 1963-64, U.S. Department of Commerce, Bureau of the Census, Series G-GF64-No. 1, pages 7, 17, and 19.

various "foundations" or "equalization" programs, this item represents almost all expenditures for institutions of higher education. State expenditures for schools amounted to 19.8 percent of total state general expenditures for Montana, 23.5 percent for all 50 states, and 26.4 percent for 10 western states.

Montana ranked 21 (from the highest) in the percentage of total state and local general expenditure for schools, number 30 in the percent of state general expenditure for schools, and number 8 in the percent of local general expenditure for schools (see Table 5).

Highways and roads accounted for almost twice as large a percentage of state and local general expenditure in Montana as in all 50 states and about half again as much as 10 western states (see Tables 2, 3, and 4 and Figure 1). In percentage of total state and local general expenditures for highways and roads, Montana was exceeded only by three states, Wyoming, South Dakota and Alaska (see Table 6). Montana ranked second in percentage of state general expenditure for highways and number 17 in the percentage of local general expenditure for highways and roads.

In interpreting the differences in percentages of expenditures for highways among the various states the reader should keep in mind such factors as: (a) some of the states must make much larger commitments than others for services typically required in metropolitan areas; (b) the mileage of highways is great compared to the tax base in such thinly settled areas as Wyoming, Nevada and Montana; (c) a large

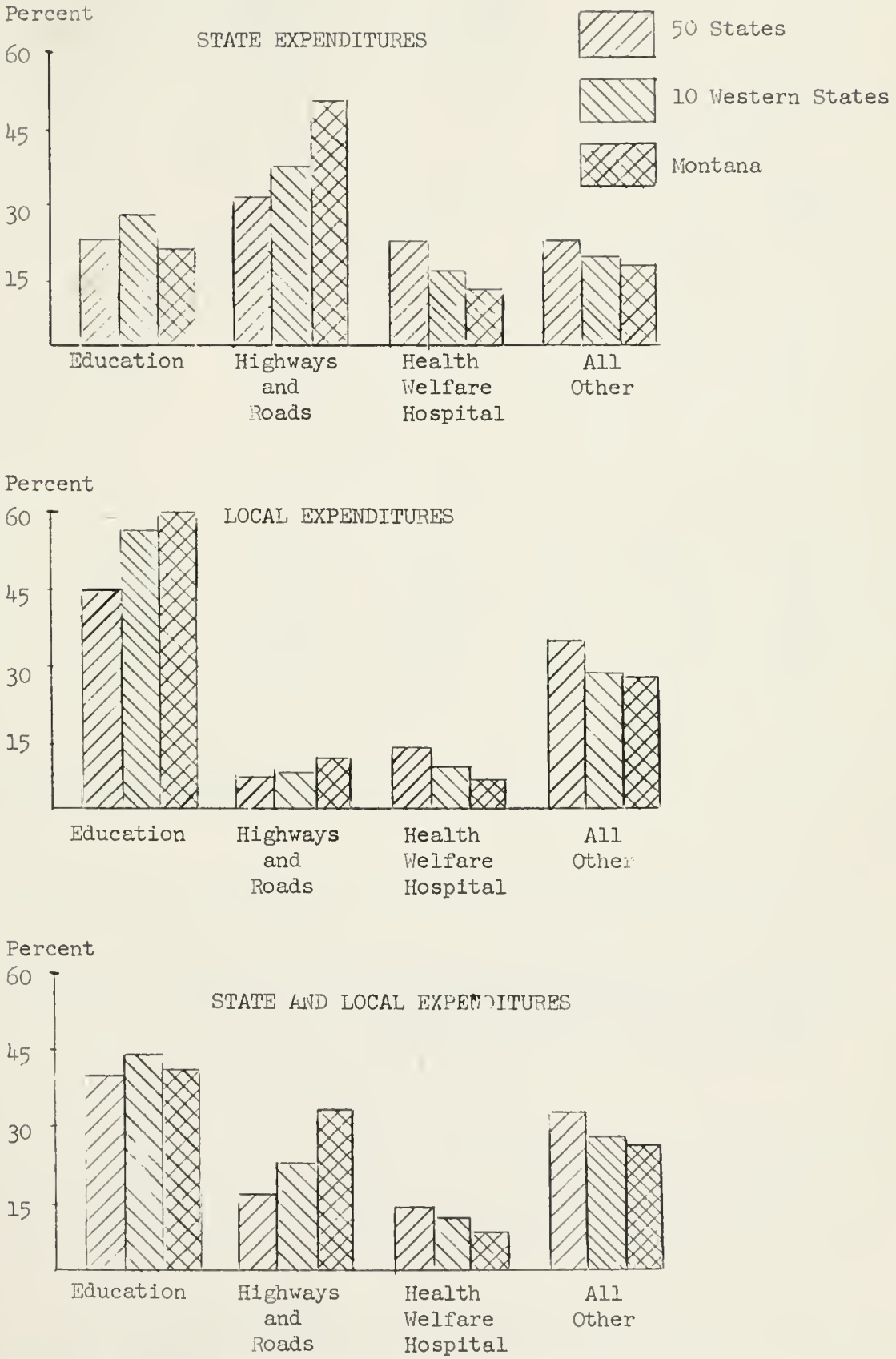

Figure 1. Percentage of Expenditures for Various Governmental Functions by Level of Government.

TABLE 2

GENERAL EXPENDITURES BY STATE AND
LOCAL GOVERNMENTS IN ALL 50 STATES BY FUNCTIONS IN 1963-64.*

Function	Amounts Expended			Percent of Total Each Function		
	State	Local	State & Local	State	Local	State & Local
	(000,000 Dollars)			(Percent)		
Education	5,711.2	20,821.5	26,532.7	23.5	46.2	38.3
Highways	7,850.0	3,814.4	11,664.4	32.3	8.5	16.8
Health, Welfare and Hospitals	5,259.6	5,415.9	10,675.5	21.7	12.0	15.4
Police and fire protection, sewerage and sanitation, local parks, and recreation	314.6	6,562.7	6,877.3	1.3	14.7	10.0
Financial adm.	576.7	603.6	1,180.3	2.4	1.3	1.7
Gen. Control	294.2	1,092.5	1,386.7	1.2	2.4	2.0
Interest on Debt	765.3	1,590.4	2,355.7	3.2	3.5	3.4
All other general	3,503.0	5,125.9	8,628.9	14.4	11.4	12.4
Total	24,274.6	45,026.9	69,301.5	100.0	100.0	100.0

*Source. Government Finances in 1963-64, U.S. Department of Commerce, Bureau of the Census, Series G-Gf64-No.1, pp. 34 and 35.

portion of the funds expended for highways by the thinly settled states is received as grants-in-aid from the federal government.

Montana's state and local general expenditures for health, welfare and hospitals and for the types of services required in larger amounts in metropolitan areas (such as fire and police protection, sewerage and sanitation, and parks) was considerably smaller as a percent of the total than was the percentage spent by the 50 states.

Expenditures Related to Montana's Tax Revenues

Only a rough identification can be made of the amounts of Montana tax money only which are used for various expenditure purposes. In most cases, the best measure is the amount of money appropriated by the legislature from the general fund or the property tax levy for each specific purpose. Highways and roads are a special case in that most of the revenues used for this purpose come from earmarked funds or from levies for this specific purpose.

In Table 7, state and local tax revenues are allocated to certain purposes. Specific methods used in allocating are described in footnotes to the table. In using

TABLE 3

GENERAL EXPENDITURES BY STATE AND
LOCAL GOVERNMENTS IN MONTANA BY FUNCTIONS IN 1963-64.*

Function	Amounts Expended			Percent of Total Each Function		
	State	Local	State & Local	State	Local	State & Local
	(000,000 Dollars)			(Percent)		
Education	29.5	87.5	117.0	19.8	57.4	38.8
Highways	74.7	16.1	90.8	50.2	10.5	30.1
Health, Welfare and Hospitals	18.8	8.8	27.6	12.8	5.8	9.1
Police and fire protection, sewerage and sanitation, local parks, and recreation	1.6	15.3	16.9	1.1	10.0	5.7
Financial adm.	2.7	3.4	6.1	1.8	2.2	2.0
Gen. Control	1.1	4.3	5.4	.6	2.8	1.8
Interest on Debt	1.7	4.1	5.8	1.1	2.7	1.9
All other general	18.8	13.1	31.9	12.6	8.6	10.6
Total	148.9	152.6	301.5	100.0	100.0	100.0

*Source. Government Finances in 1963-64, U.S. Department of Commerce, Bureau of the Census, Series G-GF64-No. 1, pp. 36 and 37.

this table, keep in mind several considerations. First, for any one year, the expenditures of tax revenues would not necessarily add up to the total revenues collected during that year. To illustrate, during World War II there were several years when taxes collected exceeded expenditures and a budgetary surplus was accumulated. Many public expenditures were curtailed because of decreased need for civilian expenditures (e.g., reduced enrollment in the university system), shortages of labor and materials, and so on. As of June 30, 1949, the general fund balance exceeded $14 million.[2] By June 30, 1958, this surplus had been reduced almost to zero. Some of the accumulated surplus had to be used in post-war years for deferred maintenance or replacement of buildings and equipment,[3] sidewalks, and so on.

2. Financing State Services, Proceedings of conference held on campus of Montana State Univeristy, (Bozeman) December 5-6, 1960, p.20.

3. For example, just over $1 million were appropriated for the year 1949-50 for such purposes on the six campuses of the University System. To the extent that such expenditures were made from general fund surpluses, the Table 7 item for education for 1950 would be reduced and the item for "all other state expenditures" (balancing column) would be increased.

TABLE 4

GENERAL EXPENDITURES BY STATE AND LOCAL GOVERNMENTS IN 10 WESTERN STATES BY FUNCTIONS, 1963-64.*

Function	Amounts Expended			Percent of Total Each Function		
	State	Local	State & Local	State	Local	State & Local
	(000,000 Dollars)			(Percent)		
Education	436.7	1,159.2	1,595.9	26.4	55.1	42.5
Highways	624.7	181.3	806.0	37.8	8.6	21.4
Health, Welfare and Hospitals	267.3	191.3	458.6	16.2	9.1	12.2
Police and Fire protection, sewerage and sanitation, local parks and recreation	20.1	251.2	271.3	1.2	11.9	7.2
Financial adm.	38.8	35.2	74.0	2.3	1.7	2.0
Gen. Control	15.8	54.7	70.5	1.0	2.6	1.9
Interest on Debt	12.3	47.4	59.7	.7	2.3	1.6
All other general	237.6	183.4	421.0	14.4	8.7	11.2
Total	1,653.3	2,103.7	3,757.0	100.0	100.0	100.0

*Source. Government Finances in 1963-64, U.S. Department of Commerce, Bureau of the Census, Series G-GF64-No.1, pp. 34-39. The 10 states are Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, North Dakota, South Dakota, Utah, and Wyoming.

A second qualifying consideration is that governmental units do not necessarily spend the exact amount that has been appropriated from various funds. Nor does the County or State Highway Department necessarily spend each year the exact amounts of revenues collected from earmarked sources. Thirdly, money in the State's general fund does not all come from tax sources. Examples of revenue received from non-tax sources are liquor profits and certain fines, fees, and charges of state governmental agencies.

Keeping in mind the methodology used in preparing Table 7 and the several qualifying considerations, some important shifts can still be read from Table 7. The first is that the percentage of state and local tax revenues used for education has increased since 1940--from 33.4 percent in 1940 to 47.6 percent in 1964. This increase reflects several things--the increased proportion of school age children in the population, in increased emphasis on education with rising standards of performance and increased participation (especially at the university level), the need for new plants, and shortage of trained people resulting in increasing competition for teachers (resulting in higher costs).

TABLE 5

MONTANA'S RANKING IN THE PERCENTAGE OF TOTAL GENERAL EXPENDITURES ALLOCATED TO SCHOOLS COMPARED WITH FIVE HIGH-AND FIVE LOW-RANKING STATES.

State	Rank	Percent of Total to Schools
	STATE EXPENDITURES (Higher education mainly)	
Hawaii*	1	39.1
Wisconsin	2	38.2
Indiana	3	38.2
Colorado	4	37.5
Michigan	5	35.2
Montana	30	19.8
U.S. Average		23.5
Wyoming	46	15.2
Missouri	47	14.9
Connecticut	48	12.5
Nevada	49	11.8
Massachusetts	50	10.2
	LOCAL EXPENDITURES (High schools and elementary)	
Utah	1	64.8
New Mexico	2	64.4
Delaware	3	63.2
S. Carolina	4	60.3
W. Virginia	5	59.4
Montana	8	57.4
U.S. Average		46.2
California	46	42.1
Wisconsin	47	40.2
Massachusetts	48	37.3
New York	49	37.2
Hawaii*	50	11.0
	TOTAL STATE AND LOCAL EXPENDITURES	
Utah	1	49.9
Indiana	2	48.7
New Mexico	3	46.7
Colorado	4	46.3
Arizona	5	44.4
Montana	21	38.8
U.S. Average		38.3
Rhode Island	46	32.7
Louisiana	47	32.1
Hawaii*	48	30.0
Nevada	49	29.8
Massachusetts	50	28.6

*Actually Hawaii is a special case. Only Hawaii and Alaska make substantial direct expenditures for common schools. This makes Hawaii high in state expenditures, low in local expenditures. She ranks third from the bottom in percent of total state and local expenditures to education.

TABLE 6

MONTANA'S RANKING IN THE PERCENTAGE OF TOTAL GENERAL EXPENDITURES ALLOCATED TO ROADS COMPARED WITH FIVE HIGH- AND FIVE LOW-RANKING STATES.

State	Rank	Percent of Total to Roads
	STATE EXPENDITURES	
Wyoming	1	62.9
MONTANA	2	50.2
Nevada	3	49.9
S. Dakota	4	48.8
Virginia	5	47.0
U.S. Average		40.6
New York	46	25.2
Washington	47	24.7
Wisconsin	48	22.8
Michigan	49	22.7
Hawaii	50	8.1
	LOCAL EXPENDITURES	
N. Dakota	1	18.9
Wisconsin	2	16.8
Iowa	3	16.6
S. Dakota	4	16.2
Vermont	5	16.0
Montana	17	10.5
U.S. Average		8.5
S. Caroline	46	5.2
Utah	47	5.1
Kentucky	48	4.4
N. Carolina	49	3.9
W. Virginia	50	3.2
	TOTAL STATE AND LOCAL EXPENDITURES	
Wyoming	1	36.2
S. Dakota	2	33.3
Alaska	3	31.3
MONTANA	4	30.1
Vermont	5	29.4
U.S. Average		16.8
Michigan	46	13.6
New Jersey	47	13.1
New York	48	12.1
California	49	11.2
Hawaii	50	9.4

In percentage terms, the expenditure of state and local tax money for roads and highways has decreased moderately although this decrease has been offset by increased expenditures of federal funds for highways. There has been an even greater decrease in the percentage of total state and local taxes going for county, city and town purposes.

Although column four is the "balancing column," i.e., the amount that is left over of tax funds after the first three columns have been subtracted, it appears

EXPENDITURE OF STATE AND LOCAL TAX REVENUES FOR VARIOUS TYPES OF SERVICES, MONTANA. 1940 TO 1964.

	Types of Services									
	Education[1]		Roads & Highways[2]		County City & Town[3]		All Other State Expenditures[4]		Total Taxes Collected[5]	
	Amount (000) (dollars)	%	Amount (000) (dollars)	%	Amount (000) (dollars)	%	Amount (000) (dollars)	%	Amount (000) (dollars)	%
1940	11,702	33.4	8,215	23.5	11,394	32.6	3,693	10.5	35,004	100
1942	12,376	35.5	8,205	23.5	10,195	29.2	4,132	11.8	34,908	100
1944	13,347	35.6	9,554	25.5	9,342	24.9	5,228	14.0	37,471	100
1946	16,313	38.6	10,285	24.3	11,317	26.7	4,384	10.4	42,299	100
1948	22,895	36.2	14,146	22.4	14,861	23.5	11,277	17.9	63,179	100
1950	30,038	40.8	17,784	24.1	17,708	24.0	8,182	11.1	73,712	100
1952	32,886	36.9	20,885	23.4	20,685	23.2	14,683	16.5	89,139	100
1954	36,489	37.5	23,200	23.8	22,998	23.6	14,742	15.1	97,429	100
1956	45,658	37.9	28,330	23.5	27,116	22.5	19,385	16.1	120,489	100
1958	61,913	44.7	29,148	21.0	31,606	22.8	15,908	11.5	138,575	100
1960	63,694	41.3	30,329	19.7	34,650	22.5	25,533	16.5	154,206	100
1962	76,354	45.8	32,063	19.3	35,670	21.4	22,501	13.5	166,588	100
1964	85,345	47.6	34,524	19.3	38,591	21.5	20,691	11.6	179,151	100

1. Fiscal year 1939-40, etc., Expenditures from school funds as reported in biennial report of Superintendent of Public Instruction less federal funds and such non-tax revenues as interest and income, building fund (sale of bonds), school lunch fund and housing and dormitory fund. For the University System, appropriation from the millage fund and the general fund were used.

2. Earmarked revenues were used as a measure of roads and highway expenditures. Include motor fuels tax, motor vehicle taxes (see Table 6, Section A, Part III), county road levy and county bridge levy.

3. Total property tax less levies for state purposes, schools and roads, hail insurance and irrigation and drainage districts.

4. This is simply the difference between total taxes collected (Table 6, Section A, Part III) and expenditures for schools, roads and highways, and county, city and town governments.

5. Total taxes collected, from Table 6, Section A, Part III.

that about the same percentage of tax money is used for this sector in 1964 as was used in 1940. In this category would be state offices, boards, commissions and departments and state institutions other than the university system. The swing upward and later decline in the percentages allocated to "all other state expenditures," as the balancing column, is at least partially the result of the wartime accumulation of budget surplus and its later use.

Based on the data in Table 7, state and local tax collections in 1964 were just over five times (5.1) what they were in 1940. Expenditure of state and local tax monies for schools was a little over seven times (7.3) what it was in 1940. Expenditure of state and local tax money for roads and highways was a little over four times (4.2) what it was in 1940. Expenditure of state and local tax money by counties, cities, and towns for purposes other than schools and roads was 3.4 times what it was in 1940, and expenditure for state purposes other than schools and highways was 5.6 times what it was in 1940.

SECTION C--DEVELOPMENT OF PUBLIC INSTITUTIONS AND PUBLIC SERVICES IN MONTANA

by Layton S. Thompson

HISTORICAL HIGHLIGHTS

The development of Montana's public institutions and the changing pattern of public services treated in this section, are related, of course, to the periods of Montana history.

First there was the early period of statehood characterized by primary dependence on mining and stock raising, but with growing emphasis on crop farming, particularly in the irrigated valleys. These were the horse and buggy days. There was a system of railroads, but a very primitive system of roads. In the decade from 1900 to 1910, the automobile was beginning to come in. Crops were moved to town by teams and wagons.

There followed the period of intense homestead activity, preceded and accompanied by a period of unusually heavy precipitation and encouraged by favorable prices for farm commodities which reached a climax during World War I. The result was an unhealthy expansion in the number of farms and in the apparent need for public services for the families involved.

Then came the drouth and postwar break in farm prices resulting in a record number of farm bankruptcies, mortgage foreclosures, and farm real estate tax delinquencies. The depression in agriculture during the 1920's was nation-wide, but the drastic adjustment resulting from prewar and wartime homestead expansion was unique to Montana.

The Great Depression of the 1930's, following on the heels of the adjustments of the 1920's, resulted in some heroic efforts to reform not only the tax structure, but the system of public services and public institutions, as we shall see.

Since World War II, there has been the constant pressure of trying to keep up, in the public sector, with changes in population, the scientific revolution, and increase in productivity and the standard of living.

Although Montanans must contend with some problems which arise from conditions which are peculiar to this state because of historical events or environment, no small part of their efforts have been and are required just to keep up with what goes on in the rest of the world. This applies not only to such major developments as highways and school systems, but to numerous other developments such as workmen's compensation, care for the ill and unfortunate, retirement programs for state employees, rural electrification, conservation of resources or health and sanitation facilities.

THE PATTERN OF MONTANA'S INSTITUTIONAL DEVELOPMENT

Executive Offices and Original Boards

Aside from the typical group of executive offices, the original constitution provides for a group of Boards mostly of an administrative nature, such as the State Board of Examiners, the State Board of Land Commissioners, and the State Board of Equalization. Although significant changes have been made in the make-up, duties, and responsibilities of some of these Boards since 1889, particularly the Board of Equalization, it is sufficient to say of the early executive offices and Boards that their "real" cost[1] of operation has increased because of increased responsibilities as the state's socio-economic structure becomes more complex.

Agriculture and Natural Resources; Commissions, Boards, Departments, Agencies

The constitution specifically provides for a Bureau of Agriculture, Labor, and Industry. Starting with this, it is interesting to follow the long list of offices, boards, commissions, and institutions created to supervise and protect, foster and develop agriculture in the State and to conserve the State's natural resources.[2] The majority of these had their beginnings during the first 30 years of Montana's existence as a state when agriculture was even of greater importance relative to other occupations than it now is. Nevertheless, Montana is still classified as an agricultural state and in recent years such agencies as the Milk Control Board, the Grass Conservation Commission and the Wool Laboratory have been created.

Numerous as they appear on a list, agricultural services are not heavy consumers of state and local tax dollars. Of the $4 million spent for agriculture, conservation and natural resources during the fiscal year 1963-64, an amount of almost $3 million was generated within the various agencies and departments in licenses, fees, and charges, or collected as a direct levy against livestock. Several agencies, such as the Grass Conservation Commission, the Hail Insurance Board, the Milk Control Board, and the Oil and Gas Conservation Commission are completely financed by internally generated funds.

In another category, an amount of $938,559 was appropriated from the state general fund for the Agricultural Experiment Station and $335,019 for the Cooperative Agricultural Extension Service. An additional amount is furnished by the counties for the Extension Service.

State Institutions

The third legislative assembly, in 1893, created a group of seven state institutions (see calendar). Four of these are now listed as part of the university system and three--the State Industrial School, the State Orphans Home (Children's Center) and the School for Deaf and Blind--are now included in the Department of Public Institutions. A fourth institution in the list, the state prison, already existed when Montana became a state. To the list of "public institutions" have been added in later years six others, the Montana Soldiers Home, the School for Feeble Minded (Training

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1. Real cost defined as money cost adjusted to account for changes in the price level.

2. See "Calendar of Public Institutions and Public Service Highlights in Montana" at the end of this part.

School and Hospital), the State Tuberculosis Sanitarium, the State Hospital, the Vocational School for Girls, and the Home for Senile Men and Women.[3]

These ten public institutions all have their counterparts in practically every state in the United States. Expenditures for them during the 1963-64 fiscal year was just short of $10 million, over $9 million of which was appropriated from the state general fund.[4] The largest expenditure ($3.7 million) was for the State Hospital, followed by the Training School and Hospital ($1.6 million), State Prison (1.5 million), and Tuberculosis Sanitarium ($1.2 million). Costs have increased and probably will continue to increase as a result of population increases, rising price level, changed attitudes concerning what is the minimum level of "care" and increased emphasis on "treatment" as contrasted with "custody" and "maintenance."

Non-institutional Programs for Individual Well-being

As the reader examines the "Calendar of Public Institutions and Public Service Highlights" he is apt to be impressed with the growing emphasis on non-institutional group approaches to problems of individual well-being. These received much impetus during the Great Depression of the 1930's. It is true that the State Board of Health was created as early as 1901, and the Workmen's Compensation Act, creating the Industrail Accident Board, was passed as of 1915; but in the 1930's were established provisions for Old Age Assistance, the Montana Department of Public Welfare, Retirement System for Public School Teachers and Unemployment Compensation. Later came the Public Employees' Retirement System, the Veterans' Welfare Commission and Vocational Rehabilitation. Activities of the Board of Health have been greatly expanded. These also were, for the most part, matters of keeping up with what was going on in the rest of the country, in other states and in private industry.

The Montana State Health and Welfare expenditure for the fiscal year of 1963-64 was $43.1 million of which only $4.2 million was appropriated from the state general fund. Federal funds were $11.5 million, $26 million was furnished from agency and earmarked revenue funds, and $1.5 million from county funds.[5] Much of the money to finance such programs as the teachers' and public employees' retirement programs, industrial accident and unemployment compensation programs are obtained from employers (public and private) and employees.

Counties levied $6.4 million for welfare purposes in 1964 (including the $1.5 million listed above which is used to reimburse the state for welfare services in the counties), making a total of $10.6 million state and local general tax revenues used for welfare purposes.

If the institutional care of persons treated above is combined with the "health and welfare" services, a total of $20 million of state and local general tax revenues is seen to be used for these purposes in Montana in 1963-64. Welfare expenditures, therefore, have come to rank third among the uses of state and local tax revenues. Only education and roads rank higher at the state and local level.

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3. See Calendar. These dates are useful only to establish roughly the order of formation of the institutions. In some cases the dates represent the time buildings were finished and ready for occupation, in other cases they represent authorization or "creation" of the institution by the legislative assembly. Prior to about 1913, the "care, custody, treatment, and maintenance of insane persons" was handled by a private firm under contractual arrangement.

4. State of Montana Budget for the Biennium July 1, 1965 to June 30, 1967, p. 256.

5. Ibid. p. 140.

Because of the importance of education and highways in state and local public finance--together these two categories accounted for 65 percent of the expenditures of state and local tax revenues in the fiscal year 1963-64--the history of the development of these public services in Montana will be covered separately and individually.

From Wagon Roads to Super Highways

The aim of the Mullan road, built from Fort Benton to Walla Walla, was to connect steamboat navigation on the Missouri and the Columbia Rivers. The 625 mile road was "built" in the two summer seasons of 1859 and 1860 at a cost of $230,000. Construction consisted chiefly of building bridges and ferry boats, cutting timber, building "corduroy" roads across marshy areas, making cuts along jutting spurs and some simple grading. In a report, Mullan recommended that those who were to travel his famous road allow 47 days for the trip from Fort Benton to Walla Walla.[6]

The Mullan road was a "federal" project built before Montana received territorial status. When a territorial government was set up:

> "the amount of taxable property in the Territory was too small to yield enough revenue for the support of local and territorial government. Land could not be taxed until it passed into private ownership. No land had been surveyed in Montana and the title to land could not be acquired until land had been surveyed. A general property tax was authorized and licenses were required to carry on every kind of business in the territory.
>
> Better and more roads were a necessity, but there was no money available to build public highways. In this dilemma, the assembly turned to private capital and chartered numerous companies to build toll roads, bridges, and ferries."[7]

In 1865 acting Governor Meagher investigated the deplorable condition of roads in the territory:

> "There were no public highways, for all the roads were in control of private companies chartered by the first legislature, and tolls were charged on the roads, bridges and ferries. Even the Mullan military road had been changed into a turnpike with toll gates along its course. He (Meagher) branded this as a fraud, for the farmers in Hell Gate and Bitter Root Valleys had no other means of hauling their produce to the mining camps."[8] [9]

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6. Hamilton, James McClellan, From Wilderness to Statehood, Binfords and Mort, 1957, pp. 131 to 144.

7. Ibid. p. 282.

8. Ibid. p. 285.

9. In 1866 the territorial legislature in a joint memorial asked Congress to appropriate $75,000 to put the Mullan Road back in shape. (It had become impassable for some 200 miles across the Bitterroot and Coeur d'Alene Mts.) "When the road shall be so opened, the enterprise of our people now settling along the whole line would be sufficient to keep the same in good repair without further assistance from the general government for all time to come." Up to the end of 1941 approximately $8,888,000 had been spent for construction alone on Montana highways following the general route of the old Mullan Road in the state. See History of the Montana State Highway Department, 1913-1942, pp. 4 and 5. This same stretch of highway is now part of the interstate system.

Later Governor Ashley complained:

> "Travelers and freighters found, in every canyon, on almost every water course and on many broad and level plains, a toll collector who demanded, as a condition to the passing of each, from $1 to $3.--A team with a loaded wagon was compelled to pay $40 in tolls between Helena, Montana, and Corinne, Utah, the railroad station."[10]

With the fifth session of the territorial legislature, in 1869, a turning point was reached.

> "Several road and bridge franchises were rejected with the thought that county roads and bridges should exist in their places. That same legislature declared the Mullan Road from Fort Benton to the summit of the Coeur d'Alene Mountains a public highway and directed that any persons collecting toll on it should be guilty of a misdemeanor and punishable by fine of from $25 to $100."[11]

Further, the Fifth Legislature placed road building and maintenance into the hands of the counties and county commissioners who were to levy taxes on property and a head tax on each able-bodied man. And there the matter lay until 1913. Population growth, the opening of farming areas by homesteaders, and the steady increase in motor vehicle traffic (see Table 1) focused attention on the inadequacy of existing roads and the need for coordination of road construction and maintenance.

In 1913, the legislative assembly established the Montana State Highway Commission, created a highway fund, and charged the Commission with the task of designating state roads so located that when they were completed they would provide an adequate system of roads to the various market and business centers of the state and connect such centers with each other.[12] The State Highway Commission was to give advice, assistance, and supervision with regard to road building and apportion among counties the proceeds of the highway fund on a matching basis. The same legislative assembly provided for the registration of all motor vehicles at $2 per vehicle, the fees to be deposited in the State Highway Fund, and also provided for the licensing of motor vehicles according to a schedule, one-half of the money to go the county general road fund and one-half to the State Highway Fund. There was some question about the constitutionality of the license law so no collections were made until the license law was reinacted in 1917. Only the $2 registration fee and $5,000 legislative appropriation in 1913 were available for the work of the Commission. The activities of the Commission for the first four years was limited to road mapping, furnishing to counties plans and specifications for bridges, and to furnishing technical advice and assistance and rules and regulations on road construction and maintenance. The State Highway Commission had no money to apportion to the counties for road building until Initiative Bill No. 31 passed at the general election, 1926 (a 3 cent per gallon gasoline tax).

On July 11, 1916, the Federal Road Act was signed by the president. The expenditure of $75 million for road improvements in the several states during the

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10. Ibid. p. 309.

11. History of the Montana State Highway Department, 1913-42, p. 7.

12. Session Laws, 1913 Legislative Assembly.

TABLE 1

NUMBER OF MOTOR VEHICLE REGISTRATIONS IN MONTANA
BY TEN YEAR INTERVALS, 1900 TO 1960 (PRIVATE AND PUBLIC VEHICLES).*

Year	Automobiles	Buses	Trucks	Total
1900	20			20
1910	1,010		20	1,030
1920	54,828		5,822	60,650
1930	110,065		26,932	136,997
1940	144,120	9	51,886	196,015
1950	181,567	924	82,401	264,892
1959	256,940	1,202	117,450	375,592

*Source: Montana Highway History, Volume II, 1943 to 1959.

next five years was authorized.[13] This was another milestone in the history of highway construction. Montana's share for the five year period was to be $1.5 million for use outside the forest reserves (approximately $70,000 annually for a period of ten years was apportioned for roads within forest reserve districts within the state). The states were to match the appropriation with a like amount. From the motor vehicle license law enacted in 1917, the State Highway Department had no more than enough funds to administer the program. Matching funds for Federal Aid projects had to be provided from county general road funds and from bonds issued by the counties. In the fall of 1919, the people of the counties voted $6.5 million worth of bonds for additional highway improvements.[14]

Every state in the U. S. adopted a gasoline tax during the period from 1919 to 1929, obviously all the others under pressure, as was Montana, to match federal highway funds. In Montana the legislative assembly in 1921 levied a gasoline tax of two cents per gallon, the revenue apportioned one-third to the school fund and two-thirds to the general fund of the state.[15] In 1923, a two-cent per gallon gasoline tax was enacted, 40 percent to go to the general fund, 40 percent to counties, and 20 percent to the State Highway Fund.[16] The same year the legislature gave 100 percent of the motor vehicle license fees to the counties. In 1925, the share of the gasoline tax going to the State Highway Fund was reduced to 15 percent.

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13. The Act authorized the Secretary of Agriculture "to cooperate with the states, through their respective state highway departments, in the construction of rural post roads....for the purpose of this act the term 'rural post road' shall be construed to mean any public road over which the United States mails now are or may hereafter be transported." See History of the Montana State Highway Department, 1913-42, p. 119.

14. History of the Montana State Highway Department, 1913-1942, p. 21.

15. This law was declared by the court to be unconstitutional.

16. This law was also later ruled unconstitutional.

It was only after a three-cent per gallon gasoline tax (all allocated to the State Highway Fund to match Federal Aid funds) was approved by the people November 2,1926, that the State Highway had any funds for actual construction of highway. The burden of financing the state highways and of matching Federal Aid funds had been carried up to this time by the counties, by property tax levies or by issues of bonds to be retired by property tax levies.

In 1929, the gasoline tax was raised to five cents per gallon, but the state and the nation was on the verge of the Great Depression. Up to this time a surfaced road meant, for the most part, a gravel surface. An 'improved road' meant simply that the road had been graded. In 1930 roughly 60 miles of highway in the state had been 'hardsurfaced.'

The 1930's was a decade of road building in Montana and the United States. By 1940 over 4,000 miles of roads in Montana were listed as hard surfaced.[17] County road funds dropped off, but the net gasoline tax ranged from about $3 million to $5 million. The people approved a $6 million bond issue in the spring of 1931 in a special election and a second issue of $3 million was approved when Initiative Bill No. 41 was passed in the November election of 1938. Federal matching funds and Federal Emergency Funds both were used in the state in an effort to relieve the unemployment problem. From 1917 to 1943, the cummulative total of Federal Highway Funds to Montana was $72.9 million, excluding roads on non-federal lands, and federal Forest Road Funds furnished during the same period amounted to over $20 million.

During World War II construction of highways was greatly curtailed. Projects using federal funds were limited to those on the "Strategic Network of Highways." Steel and other materials could be obtained only for those projects with a high priority rating. Highway personnel was drawn off to the armed services or to war related work.

Nevertheless, plans for the future were being made. The Federal-Aid Highway Act of 1944 made provisions for an extensive postwar highway construction program. Provision was made in the 1944 Act for a National System of Interstate Highways. "This system, of not to exceed 40,000 miles, was to be located to connect the principal cities, metropolitan areas and industrial centers; to serve the national defense; and to connect with important highways in Canada and Mexico."[18]

In 1945 a $12 million debenture bond issue to finance this state's part of the postwar program was approved at a special election. In 1945, the State Highway Commission recommended those highways which should be included in the National System of Interstate Highways. The recommendations were accepted by the Federal Works Administrator excepting that portion of U.S. Highway No. 87 from Billings to Great Falls.

In 1949, the Montana gasoline tax was raised to 6 cents per gallon and in 1951 the Gross Vehicle Weight Tax Law was enacted. In 1956 the name of the interstate

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17. Montana Highway History, Volume II, 1943-59, p. 63.

18. Ibid. p. 4.

system was changed to the National System of Interstate and Defense Highways and the basic matching ratio was established at 90 percent federal money and 10 percent state money for the system. After adjustment was made for the amount of federal lands in Montana, the ratio was 91.32 percent federal money and 8.68 percent state money.

To get a contrast with earlier periods covered in this historical review, expenditures of the State Highway Department for the latest biennium (fiscal years 1962-63 and 1963-64) amounted to over $140 million, or over $70 million per year. For the biennium, receipts from state sources amounted to $47.5 million and from federal sources, $88.2 million.[19] County funds available for roads amounted to about $9.5 million each year or $19 million for the biennium.

As of the date of the 1962-64 Biennial Report of the Highway Commission, the road mileage in the state was distributed as shown in Table 2.

Growth of the Public School System

Education represents the greatest single expenditure of tax funds in every state in the U. S. It is second only to national defense even when federal, state, and local expenditures of tax revenues are combined. In the fiscal year 1963-64, education (elementary schools, high schools, and the university system) accounted for 46.6 cents of every dollar of state and local tax revenue in Montana.

There apparently has never been any question of the interest in education on the part of Montana's statesmen. A bill calling for the establishment of a common (public) school system was passed by the first territorial legislature in 1865. County commissioners were authorized by law to levy a tax of one mill on each dollar of taxable property to pay the salaries of public school teachers.[20] The Organic Act of May 26, 1864, which created the territory of Montana provided that Section 16 and 36 of each township should be reserved for the support of education. No income from this source had been realized prior to the time Montana became a state in 1889.[21]

Montana's original constitution required the establishment and maintenance of a general, uniform and thorough system of public, free, common schools. It required that funds be provided to maintain a public, free common school in each organized district in the state for at least three months in each year. Section 4 of Article XI set up a Board of Land Commissioners to manage school lands for the benefit of the various state educational institutions.

There seems to be no period in the 100-year history of Montana as a territory and as a state when the financing of adequate educational facilities was not a struggle. The period from 1890 to 1920 was the period of rapid growth in population. It was also a period when the age distribution shifted toward young homestead families

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19. Biennial Report of Montana State Highway Commission, Fiscal Period July 1, 1962 to June 30, 1964, pp. 34 and 35.

20. There were marked differences among county commissioners and among school board members as to their enthusiasm for schools and also marked differences among school districts as to taxable resources. These differences have remained with us for 100 years. They are not unique to Montana.

21. See, for example, Hamilton, op. cit., p. 501.

and their children. The problems of keeping up with this growth are reflected in the biennial reports of the State Superintendents of Public Instruction throughout the period.

Among the specific problems mentioned, some of them in report after report, probably the outstanding one was the difference in the ability (sometimes desire) of the many different school districts to provide adequate aducational facilities. Pictures of sod school houses, log school houses and just plain shacks adorn the pates of the reports along with pictures of fine, new, well-lighted and well-furnished buildings. Examples of budgets sufficient for only three or four months of school are reported as are serious problems of attendance

Enrollment in Montana's elementary schools reached a peak in about 1918 to 1920, related to the great wave of homesteading from 1910 to 1917.[22] (See Table 3.) At the peak, the enrollment was almsot double what it had been just ten years before. The number of school districts in 1920 was approximately 2,100, as opposed to less than 1,100 in 1910.[23] The number of counties increased from 27 in 1909 to 54 in 1920, or just double.

Then came the drouth and recession following World War I and a long period of adjustment. The number of school districts which reached a peak of about 2,400 in 1920 has now dropped to less than 1,000. There are less than half as many farm units as there were in 1920. Montana was the only state in the Union that had a decrease in population between 1920 and 1930. It was not until 1957 that elementary school enrollment again was as large as it was at the 1918-1920 peak. (Table 3) But those attending in 1958 were occupying modern, well-equipped school buildings, mostly in urban settings. Many that were in use in 1920 are long since gone.

Throughout Montana's history, school leaders have seen the need for some means of equalizing support of schools between districts and between counties. Year after year reports of state and county superintendents presented evidence of the need for this.[24] Use of both county and state funds was urged. Income from funds received from the sale of school lands and from the leasing of school lands was the only source of state school funds until 1920. This amounted to about $6 for every school child in 1960. A six mill county levy was also distributed to school districts on the school census basis. During the 1920's small amounts of school funds were made available from such sources as the inheritance tax, the oil license tax, oil royalties from the federal government, the gasoline tax, and the the Metal Mines tax. In 1927, the legislative assembly created the common school equalization fund and some equalization aspects were included in the formula for apportionment of the funds.

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22. See Part III. Number of farms reached a peak at the 1920 Census count, also, as indicated in Table 3, Part III.

23. Freshour, Donald J., "Montana's School Districts, Past and Present," Report submitted in partial fulfillment of the requirements for the Master of Education Degree, Department of Education, M.S.U., 1964, p. 47.

24. See the 15th Biennial Report (1918) of the State Superintendent of Public Instruction for an interesting report on the "gerrymandering" of school districts in order that some railroad property might be included.

In 1935, an act was passed to "carry on and support a minimum foundational education program." This was a major breakthrough. In the intervening 30 years, almost every legislative assembly has concerned itself in some way with attempts to improve the equalization aspects of this program, to increase the state's contribution, or both of these. The land reclassification and property revaluation program which has been in progress in Montana since 1957 was a basic need as far as school equalization is concerned. In 1963, an important change was made in the formula which provides for much more equalization within counties.

A perusal of Table 3 will throw light on the problems which have faced legislators, school administrators, and taxpayers since about 1950. The number of births remained quite stable in Montana from 1920 to 1945 with the exception of a slump during the early years of the Great Depression. Then came the jump in the number of births in 1946 and a run up to over 17,000 births in 1954. The children born in 1946 were in grade schools in 1952, in high school in 1961 and started to college in 1964. Sometime between now and 1970 most of them will start families and presumably raise more children.[25]

In the 1920's we were experiencing a rapid increase in the percentage of high school age young people who went to high school. In recent years this has been the important factor in college enrollments. The post-war increases in births did not affect colleges and universities at all until the past school year (1964-65).[26] Much of the increases in enrollment at all levels has required new, more modern facilities.

One more item worthy of note is that teachers (as well as the work force in general) are being drawn from those who were being born in the depression years and war years. Therefore, the supply of trained people is scarce, competition for them on a national, and even world scale is great, and salaries are high.

Summary Comments

As a concluding statement it could be said that there is little about the first 100 years of Montana's history of public institutions and public services that suggests that a plateau will soon be reached and that people can simply sit back and enjoy the fruits of former efforts.

On the other hand, neither is a bleak picture presented. Public services at present levels can be provided with less real sacrifice to the citizenry than could those of 50 years or 100 years ago. That is to say, we can have a rising level of living, in some cases, perhaps, in spite of public services, but in many cases because of them. Examples that easily come to mind are education, highways, police protection and postal services.

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25. The drop in births in the past three years is taken by some to mean that we will have a significant slackening in the need for schools. But these babies are being born to people who were themselves born during the depression and war years. Unless there is a marked change in birth rate, the downward trend in births since 1960 will not continue.

26. Enrollment in the University system almost doubled from 1955 to 1964 (Table 3). The executive secretary of the Montana Board of Regents has predicted a further increase of 85% by 1971.

Calendar of Public Institution and
Public Service Highlights
In Montana

1889 - Constitution ratified, with 16 counties in existence.

Article XI, Section I. It shall be the duty of the Legislative Assembly of Montana to establish and maintain a general, uniform and thorough system of free common schools.

Section IV. The Governor, Superintendent of Public Instruction, Secretary of State and Attorney General shall constitute the State Board of Land Commissioners which shall have the direction, control, lease and sale of the school lands of the State, and the lands granted or which may hereafter be granted for the support and benefit of the various state educational institutions, under such regulations and restrictions as may be provided by law.

1891 - Provision for a State Land Agent and State Mineral Lands Commissioner.

State Board of Commissioners for the Insane (Governor, Secretary of State and Attorney General) empowered to contract with the lowest and best bidder for the care, custody, treatment and maintenance of insane persons.

Other Boards established by legislative assembly:

State Board of Land Commissioners (Constitution)
State Board of Pardons (Constitution)
State Board of Prison Commissioners (Constitution)
State Board of Examiners (Constitution)
State Board of Equalization (Constitution)
State Furnishing Board

1893 - Bureau of Agriculture, Labor and Industry established (Constitution).

State Board of Charities and Reform (relations between the State and its dependent and criminal classes - charity and correction).

State Board of Education (Constitution)

Creation of the following State institutions:

University of Montana, Missoula
State Agricultural College, Bozeman
Agricultural Experiment Station, Bozeman
State Normal College, Dillon
State Industrial School, Miles City
State Orphans Home, Twin Bridges
School for Deaf and Dumb, Boulder

1894 - Helena chosen as permanent capital at general election.

1895 - State Arid Land Grand Commission (Arid Land Grant from Congress).

State Board of Stock Commissioners, levy on livestock for "stock inspection and detective fund" and "stock indemnity fund."

Secretary of Commission recorder of marks and brands. Provision for a Veterinary Surgeon.

Board of Game and Fish Commissioners, provision for State Game Warden and County game wardens.

1896 - Montana Soldiers Home, Columbia Falls, completed.

1897 - Board of Sheep Commissioners, levy on value of sheep for "Sheep Inspection and Indenmity Fund."

1899 - Provision for free kindergarten, ages three to six years.

Provision for county free high schools (submit to vote).

State Board of Horticulture established.

1901 - State Board of Health (Sanitation, contagious diseases, etc.)

1902 - State Capitol completed.

1903 - Compulsory education, ages 8 - 16.

Bureau of Child and Animal Protection (humane society).

Carey Land Act Board, replace Arid Land Grant Commission.

Appropriation for School for Feeble Minded at Boulder.

Sub-experiment Station near Billings.

1907 - Creation of Board of R.R. Commissioners (elected) establishment of rates, charges, orders, etc.

Sub-station of Experiment Station in Fergus County.

State Livestock Sanitary Board (disease quarantine, etc.)

(President of Board of Stock Commissioners)
(President of Board of Sheep Commissioners)
(President of State Board of Health)

State Bureau of Vital Statistics (in State Board of Health).

1909 - State Forester, under State Board of Land Commissioners.

Commissioner of Insurance, Office of State Auditor.

1911 - Montana State Tuberculosis Sanitarium. Money appropriated for site and buildings.

Legislature made provisions for State purchase of State Insane Asylum facilities at Warm Springs (from private firm).

State Hospital for Inebriates at State Insane Asylum.

State Board of Poultry Husbandry.

1913 - Montana Highway Commission; State Highway Commission Fund. (See Motor Vehicle Registration Fees).

Public Service Commission, regulate and control public utilities. (Board of R.R. Commissioner Ex Officio).

Investment Commissioner created (State Auditor Ex Officio).

Provision for appointment of Superintendent of the State Insane Asylum.

Northern Montana Agricultural and Manual Training School and Experimental Sub-station (Fort Assinniboine).

State Board of Entomology.

State Dairy Commissioner.

State Grain Inspection Department (repealed and reinacted in 1915) and Montana Grain Laboratory (latter at the Montana Agricultural Experiment Station).

1914 - Women given the right to vote in Montana.

1915 - Workmens' Compensation Act; Industrial Accident Board established.

Cooperative Agricultural Extension Work authorized, Montana and U.S.D.A.

1917 - State Board of Hail Insurance; Hail Insurance Fund.

Vocational Education. Accept provisions of Federal Act.

Livestock Commission; Consolidation of Board of Stock Commissioners and Board of Sheep Commissioners (in 1921 defined also to constitute Livestock Sanitary Board).

1919 - Vocational School for Girls established.

Montana State Bureau of Mines and Metallurgy at Montana State School of Mines.

Appropriations to begin farmers extension work and Womens Home Economics Extension Work.

County Unit School Law. Failed about 1926.

1921 - Department of Agricultural Labor and Industry, divisions of Farming and Dairying, Grain Standards and Marketing, Horticulture and Labor and Industry. (Abolished Board of Horticulture, State Dairy Commissioner, State Board

of Poultry Husbandry, Grain Grading, Inspection and Warehousing Commission and others).

1923 - State Board of Equalization created in its present form.

1925 - Eastern Montana State Normal School established.

State Equalization of School.

1927 - Northern Montana College (Academic departments) located at Havre.

Department of State Lands and Investments created, governed by State Board of Land Commissioners. Commissioner of State Lands and Investments and State Forester chief executive offices. Administer state lands and funds arising from these lands.

1929 - State Park Director created (State Department of Lands and Investments) establishment of state parks authorized.

1933 - State Liquor Control Act, state liquor stores.

1933-34 - Special Session.

Water Conservation Board created.

State Planning Board created (Water Conservation Board Ex Officio).

State Oil Conservation Board created.

Emergency Relief Fund, Montana Relief Commission.

1935 - Montana Highway Patrol created.

School Equalization Program "Minimum Foundational Educational Program," State Public School General Fund.

Milk Control Board created.

Provisions for Old Age Assistance; State Old Age Pension Commission, County Old Age Pension Commission.

1937 - Montana Department of Public Welfare created.

Montana School for Deaf and Blind established, Great Falls.

State Training School established at Boulder.

Retirement System for Public School Teachers.

Unemployment Compensation Act.

State Soil Conservation Committee; Soil Conservation Districts created.

1939 - Grass Conservation Act (Cooperative State Grazing Districts).

Rural Electric Cooperative Act.

1941 - State Fish and Game Commission (present form) created.

1945 - State Aeronautics Commission created.

Public Employees Retirement System.

Montana Wool Laboratory established.

1949 - Home for Senile Men and Women created, Lewistown.

1950 - Veterans' Honorarium Approved (initiative measure).

Separation of Department of Agriculture from Department of Labor and Industry.

1951 - Department of Labor and Industry created.

State Civil Defense Agency created.

1953 - State Oil and Gas Conservation Commission. (Replaces Oil Conservation Board created 1933-34.)

1957 - Montana Supreme Court holds Legislative Council to be constitutional.

Authorization of City-County Planning Boards.

1959 - Montana Retail Installment Sales Act.

Montana Consumers Loan Act.

Office of Director of the Budget established.

1961 - Ground Water Appropriations and Regulations Act.

1963 - New Intra-county equalization feature of the school foundation program.

State Department of Public Institutions for the control of state institutions, replaces individual executive boards for nine state institutions.

Department of Administration created with divisions of accounting, purchasing, architecture and engineering, and general services.

Treasure Fund Structure Act reorganizing the State Treasury Fund Structure and revising state fiscal procedures for the appropriation, collection, spending and coounting of public and other monies.

1965 - Proposal to levy a three-cent tax on cigarettes and a tax to be fixed by law on all other tobacco products submitted to the electorate on the November, 1966 general election. Purpose: To finance state building construction.